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Austria ... Sch. 20	Indonesia .. Rp 3100	Philippines .. Pes. 20
Bahrain .. Din.0.650	Israel ..... NS 3.50	Portugal .. Esc 100
Belgium ... BFr.45	Italy ..... L 1600	S. Arabia .. Rls 8.00
Canada ... C$1.00	Japan Y600	Singapore .. S$ 4.10
Cyprus ... C£0.75	Jordan ... Fils 500	Spain ... Pta 125
Denmark . DKr.9.00	Kuwait ... Fils.500	Sri Lanka .. Rup 30
Egypt ..... E£1 50	Lebanon . £L 50.00	Sweden .. SKr 8.00
Finland .. Fmk 7.00	Luxembourg . LFr.46	Switzerland SFr 2.20
France .. FFr 6.50	Malaysia .. Rm 4.25	Taiwan ... NT $65
Germany . DM 2.20	Mexico .. Pes. 300	Tunisia ... Din 0.800
Greece ..... Dr 80	Morocco .. Dh 6.00	Turkey .... L 350
Hong Kong . HK$ 12	Netherlands . Fl 3.00	U.A.E. ... Dh 6.50
India .... Rup. 15	Norway .. Kr. 7.00	U.S.A. $1.00

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FINANCIAL TIMES

EUROPE'S BUSINESS NEWSPAPER

No. 30,185 Monday March 16 1987 D 8523 B

Mao wheeled back on to political stage, Page 2

World news

Express derailed by bombs in India

Two remote-controlled bombs derailed an express train speeding over a bridge in southern India, sending the engine and eight coaches plummeting into a dry river bed. At least 18 people were known to have died but some reports put the toll higher.

The two explosions, seconds apart, sent the Rockfort Express plunging off Marudayar Bridge, about 40 miles from Tiruchirapalli in Tamil Nadu state. Police were said to have found a poster near the scene calling for support for Sri Lankan Tamil separatists. Page 4

Fears for hostage

The life of Mr Jean-Louis Normandin, one of five French hostages held in Lebanon, appeared in grave peril after the terrorist group holding him said they would announce his death today in spite of appeals by the French Foreign Ministry. Page 3

Spanish base battle

Police fought protesters on the outskirts of Torrejon air base after thousands of Spaniards had marched there demanding an end to the US military presence in Spain. It happened only hours before US Defence Secretary Caspar Weinberger was due on an official visit.

Paris protest march

Some 10,000 people marched through Paris from the Bastille to the Opera to demand withdrawal of a proposed nationality bill which would deprive French-born children of foreign parents of an automatic right to French nationality. Page 3

Marcos cash 'hidden'

Former President Ferdinand Marcos and his associates still controlled large sums circulating in the Philippine economy, Ramon Diaz, head of a Manila panel tracking down illegal wealth, said. "Marcos and his family were able to hide millions before they fled," he added. Page 4

Finns go to polls

Finns begin voting in two-day parliamentary elections expected to produce a shift away from the left towards conservatives and environmentalists. Page 2

Honecker sees mayor

East German leader Erich Honecker held talks with the governing mayor of West Berlin Eberhard Diepgen which may decide whether Mr Honecker will make an unprecedented visit to the city next month. Page 3

Danes back on air

Denmark's state-owned television service was back on the air when technicians ended a strike that had blacked out programmes since Friday.

Bangladesh boycott

A one-day strike by students shut all educational establishments throughout Bangladesh and forced postponement of examinations. It followed the deaths of three students when a bomb was thrown into their room.

Budapest demo

More than 2,000 Hungarians marched in Budapest in support of freedom, democracy and national independence. It was the first time in more than 30 years the authorities had tolerated such open expression of dissent.

Chernobyl pledge

Radioactive contamination of water supplies around the Chernobyl nuclear plant will not reach danger levels when the winter snow starts to melt, a Soviet nuclear expert promised.

Kelly's record win

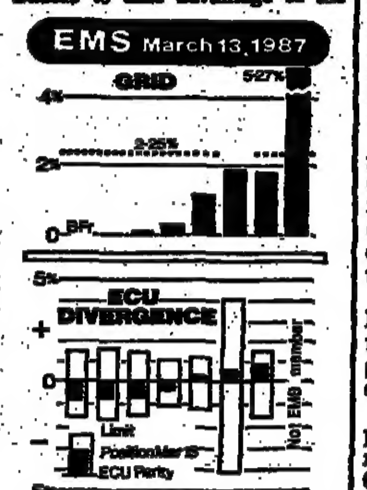
Sean Kelly of Ireland won the Paris-Nice cycle race for a record sixth time.

Business summary

Fraud may delay VW sell-off

THE FRAUDULENT foreign currency dealings at Volkswagen, Europe's largest car producer, could delay the West German Government's plan to sell its remaining 16 per cent stake in the group this year, according to Mr Gerhard Stoltenberg, the Finance Minister. Page 2

EUROPEAN Monetary System: Most currencies were slightly weaker in the EMS last week as sterling continued to attract investor demand. Figures released showed that West German economic growth had faltered in the 4th quarter of 1986 and this encouraged traders to take advantage of the high level of interest rates available in sterling. The dollar had little influence on currency movements because it remained within a very narrow trading range because of fears of central bank intervention. The Belgian franc was the weakest currency but remained well within its divergence limit.



The chart shows the two constraints on European Monetary System exchange rates. The upper grid, based on the weakest currency in the system, defines the cross rates from which no currency (except the lira) may move more than 2¼ per cent. The lower chart gives each currency's divergence from its "central rate" against the European Currency Unit (ECU), itself a basket of European currencies.

TIN: Three important UK High Court cases, with rulings to be made on court jurisdiction and the right of foreign states to immunity from claims are due to be held in April and June. Page 16

ITALY's Treasury Minister Giovanni Goria, unveiled a draft proposal which for the first time would allow industrial companies and other non-bank concerns to acquire shareholdings in Italian banks.

WEST GERMAN Government decision to keep the stock exchange turnover tax, after earlier promising to drop it, will severely weaken the country's prospects as an international financial centre, according to the Association of German Stock Exchanges. Page 21

MEXICO has suspended a scheme under which foreign creditors can convert debt into equity in Mexican companies. Page 4

ESSELTE, Swedish office supplies group, had virtually unchanged profits for 1986 despite a 10 per cent rise in turnover. Profits after financial items totalled SKr 742m against SKr 741m. Page 23

GENERAL MILLS, US food processing and restaurant group, reported a 27 per cent rise in third-quarter earnings, extending the recovery in profitability set in train by a radical restructuring completed a year ago. Page 21

GRANADA, UK television and leisure group, is a possible contender to buy Goldcrest, struggling British film group. Page 13

SOVIET metal trading and equipment sales organisation Tsvetmetpromexport has asked the Philippines if it can help to revive or operate the troubled Nonoc Corporation's nickel and cobalt mine. Page 23

ISRAELI inflation rose by only 1 per cent in February, following the imposition of price controls and January's devaluation.

Brussels may act against airlines' European cartel

BY TIM DICKSON IN BRUSSELS

THE EUROPEAN Commission will this week consider taking legal action against at least three of Europe's major national airlines.

The controversial proposal, which if adopted would represent the biggest challenge yet to the EEC's deeply entrenched airline cartels, is understood to be on the agenda of a key meeting of Commissioners in Brussels on Wednesday.

The issue is considered so sensitive that Commission officials last night refused to comment on their response. But EEC diplomats confirmed that the three companies are most likely to be the national carriers of West Germany, Denmark, and Greece – Lufthansa, Scandinavian Air Systems (SAS) and Olympic Airways.

In letters sent to 10 national carriers in the middle of last year the Commission drew attention to a number of infringements of EEC competition rules and called for changes in their commercial practices.

The arrangements by which airlines fix tariffs and agree to pool their services on certain routes regardless of underlying performance came in for careful scrutiny.

Negotiations have been taking place with a number of companies – notably British Airways, British Caledonian and KLM – but under the EEC's founding charter, the Treaty of Rome, the Commission is obliged to issue a "reasoned decision" against those which do not comply with its recommendations.

It is this action, which would enable any interested party in the EEC to take offenders to their own national court or the European Court of Justice, which is being contemplated in Brussels.

The outcome of Wednesday's meeting is directly linked to next week's meeting in Brussels of EEC Transport Ministers when Mr Herman de Croo, the Belgian chairman of the Transport Council, will try to revive the political momentum for airline liberalisation. By most accounts in Brussels this appears to have flagged since the beginning of the year with the proposals now on the table *significantly* less radical than those unsuccessfully canvassed by Britain during the second half of 1986. They are considered far from ambitious by the more enthusiastic proponents of reform.

Mr Peter Sutherland, EEC Competition Commissioner who has spearheaded the campaign for greater liberalisation of air transport, openly expressed his dissatisfaction at the lack of progress during an address this month to the Economic and Monetary Committee of the European Parliament.

An EEC diplomat in Brussels, last night talked of "significant back-tracking" on most of the major proposals. New conditions have been attached to the proposal for more cut price fares; the plan to outlaw the current bilateral deals whereby European airlines can carve up revenues on a 50/50 basis and move to at least a 60/40 split within the next three years has been watered down to the extent that member states could more easily block the later stages of this process; and the moves to promote more competition on routes between so called 'hub' airports such as Heathrow and Charles de Gaulle and regional cities have to some extent been checked by new restrictions and exceptions for certain member states.

New capacity limits and aircraft sizes have complicated the negotiations over other aspects of improved market access.

Neither Mr Sutherland nor his officials would comment yesterday but diplomats believe that the threat to step up the Commission's legal action may well be used to increase the pressure on ministers to demonstrate a deeper commitment to voluntary change.

The commitment of the Commission itself, however, is far from certain with Mr Sutherland by no means guaranteed the necessary support of a majority of his colleagues at Wednesday's meeting. Some, notably Mr Stanley Clinton Davis, the EEC Transport Commissioner, are prepared to accept a rather less radical political package as an adequate "first step," while others are expected to vote along more blatantly nationalistic lines.

The other important issue which will be discussed in Brussels this week is the scope of the so called "block exception" against the full *force of the EEC's competition rules*

Call for lower business fares, Page 2

EEC officials fear backlash over oils tax

BY QUENTIN PEEL IN BRUSSELS

THE EEC could face compensation claims for loss of trade running into billions of dollars if it goes ahead with a tax on sales of edible oils and fats, national officials in Brussels fear.

The plan to impose such a tax has been formally proposed by the European Commission as part of its annual package of farm price measures, in a desperate attempt to cut the soaring cost of supporting production of oil seeds and olive oil within the Community.

However, the danger of a furious international backlash from traditional suppliers like the US, Malaysia, Indonesia, and a whole range of other Asian, African, European and *Latin American countries*, will be raised at today's EEC foreign ministers meeting by Sir Geoffrey Howe, the British Foreign Secretary.

Current suppliers to the Community of both vegetable and marine oils – ranging from soya oil and palm oil to sunflower and marine products – would be entitled to claim compensation for loss of exports, whether the proposed oil tax is actually legal under the General Agreement of Tariffs and Trade (Gatt) or not, trade officials say.

The compensation payable could equal a large part of the extra revenue generated for the cash-strapped Community budget estimated at some Ecu 2.3bn ($2.74bn). "It could be a very expensive way of raising money for the Common Agricultural Policy," according to one EEC diplomat.

Sir Geoffrey will today ask the European Commission to say how it plans to answer such compensation claims, as well as stressing to his colleagues how damaging the tax could be to a whole range of external relationships.

Apart from the UK, the tax also faces the opposition of West Germany, the Netherlands and Denmark. Between them they can command a blocking minority in the Agriculture Council, which has the ultimate power of decision. Diplomats believe that it is therefore still unlikely to be approved, unless any country switches position.

The problem is that the oils and fats sector is currently costing the EEC budget some Ecu 2bn and that could rise by another Ecu 2bn once Spain and Portugal are fully integrated into the Common Agricultural Policy.

The Commission is proposing a tax up to a maximum Ecu 330 per tonne, which amounts to some 85 per cent on the current soya price, and around 100 per cent on the price of palm oil.

Apart from the compensation argument, opponents of the tax say it could have disastrous consequences for the new round aimed at further liberalisation of the Gatt, and infuriate the US at a time when the Community is trying to counter a strongly protectionist mood in Washington. It will also have a very obvious effect on consumer prices for margarine and cooking oil.

Mr Willy De Clercq, the EEC *Trade Commissioner*, will report to the foreign ministers on his latest effort to head off a new textile bill in the US Congress, by warning of inevitable retaliation if EEC exports are affected.

EEC tax and margarine prices, Page 2

NYSE to change triple witching expiry hour

By David Owen in Chicago

THE NEW YORK Stock Exchange and its subsidiary, the New York Futures Exchange, are to move the quarterly expiry of their respective stock index futures and options contracts to the opening, rather than the close, of trading in the underlying stocks on expiry days.

The New York stock market has experienced huge surges in trading volume and swings in prices on so-called "triple witching days" – the one Friday each quarter when stock index futures, index options and individual stock options expire simultaneously at the close of trading.

On December 19 last year, the last triple witching day, the NYSE traded about 85m shares without serious disruption, reflecting the belief of some analysts that investors have found ways to avoid the potentially huge losses that could be caused by failure to square positions in futures contracts or options with those in the underlying shares.

Although the next triple witching day falls this Friday, the proposed changes would not come into effect until Friday, June 19.

The NYSE said the exchange "has long advocated settlement in the morning rather than at the close as a practical way to deal with order imbalances and price volatility which historically occur in triple witching hours."

The New York exchanges' proposed change, which still needs official approval, is closely in line with an earlier proposal by the Chicago Mercantile Exchange to modify the expiry terms of its widely-traded futures and options contracts based on the Standard & Poor's 500 stock index. This proposal has since been approved by the Commodity Futures Trading Commission.

The NYSE's move comes a few days after the Securities and Exchange Commission told the exchange in a letter that it should tighten measures involving all pre-existing market-on-close orders for 50 of the most actively traded stocks before Friday. Member firms will be obliged to notify the exchange authorities of imbalances in orders for these stocks half an hour before the close.

The exchange, which says it has still to receive the letter, has voluntarily taken such steps since last September.

Meanwhile, the Chicago Board Options Exchange (CBOE), which in February voted to move the expiry of its S&P 500 index option to the opening of trading, now says that it will instead introduce a new class of S&P 500 option that will be settled against opening index values, while leaving its existing contract untouched.

Chicago and reform, Page 20

UK budget fuels hope of interest rate cuts

BY PHILIP STEPHENS, ECONOMICS CORRESPONDENT, IN LONDON

THE British Government hopes that the combination of tax cuts and a lower public borrowing target to be announced in its budget tomorrow will lead to further reductions of up to 1 percentage point in UK interest rates over coming weeks.

In spite of the financial authorities' determination last week to prevent rates from falling by more than ½ a percentage point to 10½ per cent, they see the prospect of a similar cut soon after the budget.

If the reaction of financial markets and, in particular the foreign exchanges, to the budget is more favourable than expected, the official view is that a 1 point reduction may be possible without risking an acceleration in inflation.

Such a move would guarantee a cut of 1 percentage point in British home loan rates, providing an added boost to personal incomes in the run-up to the general election.

It is now widely expected that Mr Nigel Lawson, the Chancellor of the Exchequer, will have at least £5bn ($7.9bn) to split between tax cuts and a lower borrowing target. Under those circumstances, he could announce a 4p reduction in the basic rate of tax to 25p.

However, it is thought Mr Lawson will have accepted the Bank of England's call for a sizeable reduction in the target for the public sector borrowing requirement in order to win the confidence of UK financial markets.

The general expectation in the City of London is that the Chancellor will lower the borrowing target from £7bn to perhaps £5bn or £5½bn, leaving room for tax cuts of around £3½bn.

Such a combination would impress the markets in two ways: it would be seen as enhancing the Government's electoral prospects, while signalling that the Treasury was sticking to a prudent approach to public finances.

The international environment also points to a general lowering of interest rates. Since the agreement between finance ministers in Paris last month to seek to stabilise exchange rates, France, Italy and Belgium have also reduced borrowing costs.

It is understood that the West German Bundesbank believes a reduction in its official rates may be possible in the early summer if the country's economic growth is still flagging.

At the Paris meeting, Mr Lawson adopted an implicit target range for sterling against other major currencies, signalling that any significant rise in the pound's value would be resisted by cuts in interest rates.

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Japan forced to lift outboard motor prices

BY CARLA RAPOPORT IN TOKYO

JAPANESE outboard motor manufacturers have agreed to raise their European export prices in the wake of a fresh anti-dumping inquiry undertaken by the European Commission.

In the second move against the Japanese motor makers in five years, the Commission is expected to announce its decision to impose price increases on Japanese outboard motors by the end of this month.

The Japanese manufacturers, which currently hold about 50 per cent of the $300m EEC outboard motor market, will be obliged to increase prices by an average of 18 per cent. Suzuki motors, one of the major outboard motor makers, said of the decision yesterday: "We regret that the customer will be obliged to pay more" for its outboard motors. Other affected companies include Yamaha, the leading Japanese producer, Nissan and Honda.

The Commission first launched a dumping investigation against the Japanese manufacturers in 1982. At that time, the Japanese were instructed to raise their prices from between 15 and 30 per cent. In November, 1985, however, European

Continued on Page 20

Yugoslav strike wave grows

BY OUR FOREIGN STAFF

YUGOSLAV trade union leaders have blamed a wave of apparently unorchestrated strikes over the past week on a new incomes policy introduced last month which froze wages at the average level of the last three months of 1986 and pinned future wages growth to productivity. Yugoslav television news described the strike wave as unprecedented.

According to press reports, trade union officials held crisis meetings over the weekend in Zagreb and other towns in Croatia, where the industrial unrest is centred, in an attempt to quell the biggest wave of strikes in Yugoslavia in recent years. Eyewitnesses in Zagreb said more police were visible on the streets last week, indicating a fear of further demonstrations.

The official Tajug newsagency reported yesterday that Mr Ivo Bilandzija, President of the Croatian branch of the Confederation of Trade Unions of Yugoslavia (CTUY), told a union meeting on Saturday that present policies were bound to cause unrest.

Mr Bilandzija, called the new legislation – imposed by the government of Mr Branko Mikulic, the Prime Minister, in an effort to stem spiralling inflation – a "midnight law" which had caused an explosion of bitterness among workers.

"Implementation of the long-term programme of economic stabilisation demands significant turnrounds and is bound to bring about certain difficulties, and even social and other unrest," he was quoted as saying by the Tajug newsagency.

"We should have prepared ourselves for this. We must admit that we did not take this seriously enough, for which the unions cannot avoid responsibility. But the greater responsibility lies with those who form policy," he said.

Mr Bilandzija also asked why a similar price freeze had not been imposed on prices, particularly of staple foodstuffs. Over the weekend the price of bread was increased by 25 per cent, the latest in a string of food price rises.

Politika Ekspres, the semi-official Belgrade newspaper, said yesterday that despite a flurry of union meetings to restore calm, more strikes were likely after the weekend.

Separately, but in another indication of worker discontent, Politika reported that last week 600 workers marched on a town hall in the northern town of Celje because their loss-making factory was about to be closed.

Western diplomats said yesterday that the industrial unrest was the first open and spontaneous bid by workers to force the Yugoslav Government to change policy.

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Prince Rainier of Monaco talks to Paul Betts, Page 6

Currency fraud inquiry could delay VW sell-off

BY HAIG SIMONIAN IN FRANKFURT

THE ALLEGEDLY fraudulent DM 480m foreign currency dealings at Volkswagen, Europe's largest car producer, could delay the West German government's plan to sell its remaining 16 per cent stake in the group this year, according to Mr Gerhard Stoltenberg, the Finance Minister.

In a further development, Mr Rolf Selowsky has resigned as VW's finance director.

In an interview with the popular Bild am Sonntag newspaper, Mr Stoltenberg said the government would have to see if it could stick to the date for selling its VW stake.

Mr Stoltenberg made no mention of how a postponed flotation of the government's share might affect its budgetary plans for the year. The Christian Democrat-Free Democrat coalition has only recently and painfully put together a substantial tax cutting package.

Moreover, the government is due to sell its 25.55 per cent stake in Veba, the energy and chemicals conglomerate, within the next two weeks. It is possible that the VW scandal, which has depressed the stock market, may affect the timing, or more likely the pricing, of the Veba sale, which it is estimated will raise DM 3bn.

The alleged fraudulent dealings at VW "immediately and very seriously" begged the question of whether certain members of VWs board were in suitable control of their areas of responsibility, Mr Stoltenberg said in his interview.

It was announced yesterday that VW's supervisory board had accepted Mr Selowsky's resignation. He was already due to leave the group when his existing five-year contract expired at the end of April.

It is not clear whether he will stay on in an advisory capacity for five years as planned.

Mr Selowsky's responsibilities are being taken over by Mr Peter Frerk on an acting basis until Mr Dieter Ullsperger, his designated successor, joins the group. Mr Ullsperger, 41, is an executive with Kloeckner-Humboldt-Deutz, the Cologne-based engineering company

The need to replace Mr Selowsky was announced last October, and was believed to stem from a policy disagreement on VW's board. It was said at the time that Mr Carl Hahn, VW's chairman, wanted to appoint an 11th board member to have greater financial and accounting control over VW's growing worldwide operations.

Women and Greens set for Finnish poll gains

By Olli Virtanen in Helsinki

WOMEN AND the Greens are likely to gain most from the Finnish parliamentary elections in which the last votes are being cast tonight.

But the main question, concerning the relative strengths of the three main parties, the Social Democrats, Kokoomus (Conservatives) and the Centre Party, still remains open.

The electorate has been left cold by the campaign. An opinion poll estimated that the percentage of voters may decline from 81 per cent in 1983 to as low as 72 per cent. Only days before voting began yesterday for the 200-seat Eduskunta (Parliament) one-third of Finns were undecided about which way to vote.

In the climate of consensus that covers a wide range of issues from economic policy to the welfare state and to foreign policy, it is often difficult to separate one agenda from another.

All major parties regard unemployment and housing as the key issues. The great election debate among 11 party chairman and one Green candidate on television last Thursday raised the young Green representative above the rest.

According to the latest polls the coalition Government may suffer slight setbacks. The SDP (currently 57 seats) may lose one or two seats while the Rural Party (17) may lose up to five. The Centre Party (37) and the Swedish People's Party (11) are expected to stay unchanged.

In the opposition, Finland's second biggest party, Kokoomus (44) has lost momentum and may not gain at all. Finland's communists split into two separate parties last year.

The pragmatic majority now has 17 seats while the Stalinist (and more pro-Soviet) minority has 10. The total number of communist MPs will decline partly because their popularity is on the wane, partly because of the proportional electoral system that favours big parties.

Greens will probably be the biggest winners and increase their number from two to as many as 10.

Mao wheeled back onto Peking stage

BY ROBERT THOMSON IN PEKING

MAO TSE-TUNG, the late great helmsman, has been badly treated by recent history, and he and his thoughts will have their permutations formally renovated in coming months, a senior Communist Party theoretician revealed.

More copies of Mao's collected works will be published and party propaganda will highlight his "contributions" so that "confused" people will understand that he was not a fool, according to Zhang Jing, an editor of Red Flag, the party's leading theoretical journal.

China has been de-Maofied since the former leader's death just over 10 years ago, when he was officially considered close to perfect by the Communist Party. At present, he is estimated to have been about 70 per cent right and 30 per cent wrong, and is openly blamed for the chaotic Cultural Revolution (1966-76), when rampaging Red Guards were inspired by his wayward thoughts.

Significantly, one of Mao's most outspoken critics has been Hu Yaobang, who was dumped as party general-secretary in January. Hu last year suggested Mao was "badly confused," and in an apparent reference to Mao's weighty collected works, he said that Chinese "can't sleep on old books."

In an interview with the Financial Times, Zhang Jing said that some recent assessments of Mao have "denied all of his contributions." He blamed this on "bourgeois liberalism" or western influence, which is supposed to have incited Chinese students to protest and corrupted the Communist Party.

"Some speeches and articles have had a very bad influence on our young people, who lack experience and are easily influenced. We want to give a correct assessment of Mao Tse-tung and to help them understand his contributions," Zhang said.

As well as publishing more of Mao's works, the party plans to increase the flow of favourable analysis in the media. A sign of the changing times appeared last week in the People's Daily, which noted that Mao had read Jane Eyre and Romeo and Juliet, among other western works.

Diplomats say the party wanted to show that Mao was well-read and not ignorant of the outside world. Many young Chinese, disillusioned by repeatedly redrawn party lines and by Mao's excesses, now regard him as a figure of fun.

However, his half-smiling portrait remains above the entrance to the Forbidden City in the heart of the Chinese capital, and recorded messages of Mao's thoughts have appeared in a few cities since the drive against "bourgeois liberalism" began several months ago.

The renewed emphasis on Mao's better points comes as the influence of conservative officials grows. Red Flag has been stressing the importance of Marxist orthodoxy, and Zhang Jing said many of Mao's "good ideas" will be re-emphasised: "Chairman Mao said young people should fear neither death nor hardship."

The "dying for your party" theme has already resurfaced with repeated press references to Lei Feng, a selfless young soldier killed at the age of 22 by a falling telephone pole. Posthumously, he was plucked from obscurity and cannonised 25 years ago by Mao, who urged all Chinese to "learn from Lei Feng."

Lei Feng had kept a diary in which he said his greatest ambition was to be "a rustless screw in the wheel of socialism." Lei went out of fashion after Mao's death, but elderly party officials are again stressing the importance of the "Lei Feng spirit."

Call for lower business air fares in Europe

BY TIM DICKSON IN BRUSSELS

APEX, Pex, and Superpex are familiar words in any air traveller's vocabulary—but if the International Foundation of Airline Passengers Associations (Ifapa) succeeds in its latest campaign a new acronym BPEX could be added to the list.

The Ifapa, a non-profit organisation established in 1985 under the Swiss civil code, is about to present European airlines and governments with its detailed proposal for what it has dubbed the "Business Passengers' Extra Option"—a low cost fare for businessmen prepared to modify their requirements and accept less booking flexibility in return for a cheaper price.

The organisation claims that its research suggests airlines could offer savings of up to 25 per cent of existing business and economy fares with no reduction in service and no loss of profitability.

Mr Geoffrey Lipman, Ifapa's executive director, a former employee of the airlines body, Iata, claims operators in Europe "have chosen to offer only the highest quality/highest cost products to business passengers, giving complete flexibility to change, cancel, or simply not show up for flights."

Current initiatives to liberalise the European air transport market, he complains, are aimed largely at providing more low fares for holiday-makers.

Believing that business passengers do not all wish or need the luxury of the present facilities, the Ifapa commissioned Mr Hugh Welburn, the man credited with inventing the Apex fare and a former pricing manager at British Airways, to develop the BPEX alternative.

Such a fare would be available to anyone making simple return journeys in Europe and willing to firm up travel plans a few days in advance of departure and prepared to lose some flexibility in choice of flights. Passengers would need to buy the ticket three days before departure with changes or cancellation only permitted at a cost of 50 per cent of the fare for the sector of the journey concerned.

Airlines, says the Ifapa, should offer Apex on any flights but the lowest prices could be achieved on "off-peak" services.

Small gain for Soviet economy

THE Soviet economy recovered slightly last month after a poor performance in January, but major industries are still falling short of their state-decreed production targets, Reuter reports from Moscow.

Central Statistical Board data published yesterday showed that industrial output was only 0.8 per cent higher in the first two months of this year compared with the same period of 1985.

The figure was an improvement on January's results, which showed that output was 0.1 per cent down on January 1986. But it was still far short of the planned increase for the whole of 1987 of 4.4 per cent compared with the 1986 plan.

EEC delay on car emission standards 'is disastrous'

BY JOHN GRIFFITHS

VOLKSWAGEN's research chief has accused EEC governments of creating a disastrous situation for Europe's car industry, by failing to implement a directive on emission standards.

Dr Ulrich Seiffert also warned that the directive, if adopted, would not deal with the source of pollution, carbon dioxide, which he said was now causing growing concern to Volkswagen.

"It's accumulating in the atmosphere, and we simply don't know what it's going to do to our world."

The EEC Commission draft directive was drawn up nearly two years ago but Denmark and Greece are refusing to give consent.

The compromise also leaves EEC states out of step with other European countries such as Switzerland, Austria and Sweden.

The directive would impose much stricter limits than at present on the emission of nitrogen oxides, carbon monoxide and hydrocarbons from petrol-powered cars, starting with vehicles of over two litres in 1988-89.

It does not mention carbon dioxide accumulations in the atmosphere which have been described by scientists as creating a greenhouse effect, raising temperatures everywhere.

New EEC tax could lift margarine price by 60%

BY WILLIAM DAWKINS IN BRUSSELS

THE PRICE of cheap margarine could go up by 60 per cent if European Commission proposals for a new tax on vegetable oils and fats are accepted by member states.

Cooks who use olive oil, mostly in poorer states, would also be hard hit by the tax, the European consumers' association said yesterday. The tax would discriminate against margarine eaters, could be illegal and might be fattening, according to Beuc, the union of European consumer bodies.

It would also hit a wide range of "essential foods" containing vegetable oil, such as sausages, baby food, chocolates and potato chips.

On average, Beuc estimates, the tax would leave Europeans just over BFr 20 (33p) per month each worse off, twice what the Commission had estimated when it tabled the scheme.

The Netherlands would be the worst hit member state, where the Dutch fondness for margarine would leave the average consumer Ecu 31 (£22.07) per year worse off, followed by the olive oil slurping Greeks and Italians, who would lose Ecu 29.8 and Ecu 28.9 per head as a result of the tax.

Japan central bank urges further restructuring

BY IAN RODGER IN TOKYO

JAPAN's industries must undertake further restructuring if the country's trade surplus is to be reduced to an internationally acceptable level, the Bank of Japan said in its monthly economic report.

The report comes at a time of growing anxiety in Japan over the continuing strength of the country's trade surpluses. Industrialists fear that if the surpluses do not decline soon, then the yen will strengthen further.

In its report, the Central Bank said that the rapid rise of the yen against the dollar and other leading currencies in the past 18 months had brought about a decline in the volume of Japanese exports. The value of exports had probably also reached its peak, but the surplus was likely to remain sizeable for some time.

Japan could no longer look to currency realignments to bring about a reduction in export volumes, the bank suggested. Thus, even though many industries had already expanded their overseas manufacturing activities and cut back on domestic production, more restructuring would be needed to lessen their dependence on exports.

FINANCIAL TIMES

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Life of French hostage in grave danger

BY GEORGE GRAHAM IN PARIS

Normandin—fears grow

THE LIFE of Mr Jean-Louis Normandin, one of the five French hostages held in the Lebanon, still appeared to be in grave peril last night after the terrorist group which took him prisoner more than a year ago threatened to kill him.

The French Government appealed at the weekend for his life to be spared, following an announcement on Saturday evening by the Revolutionary Justice Organisation, the Lebanese terrorist group which is holding Mr Normandin prisoner, that he would be shot within 48 hours.

In an official statement the French Foreign Ministry asked "those who are holding this young Frenchman who is in no way involved in the events of the Near East to hear the appeal of his father and to spare his life."

The Foreign Ministry statement also called indirectly on Iran, which is seen as having close links with the terrorist group, to use its influence to prevent Mr Normandin from being killed by his captors.

"Our country wants to develop and maintain with the states of the region relations which are as good as possible, taking account notably of their responsibilities. In particular it means to pursue with Iran the process begun 11 months ago from which it expects positive results in various respects," the Foreign Ministry said.

The exchange of statements began last week with an ultimatum from the terrorist group that it would execute Mr Normandin if the Government of Mr Jacques Chirac did not disown remarks made recently by President Francois Mitterrand on the hostages and the Iran-Iraq war.

The "cohabitation" between the right wing Mr Chirac and his socialist rival Mr Mitterrand appeared strained last week when during a visit to Madrid each tried to claim sole credit for the improvement in Franco-Spanish relations.

On Friday, however, Mr Denis Baudoin, the Prime Minister's spokesman, said that on the question of the French hostages in Lebanon the President and the Prime Minister were unanimous, and rejected the ultimatum from the Revolutionary Justice Organisation.

French politicians from both sides welcomed their Government's rejection of the terrorist ultimatum. But Mrs Simone Veil, the former President of the European Parliament, complained that the solidarity shown by the member countries of the European Community was "totally inadequate."

Paris marchers oppose nationality law changes

BY OUR PARIS CORRESPONDENT

THOUSANDS OF demonstrators marched through Paris yesterday to protest against the reform of France's nationality laws planned by the government of Mr Jacques Chirac.

The demonstration, called by some 200 anti-racist and human rights organisations and joined by the opposition Socialist and Communist parties, called for withdrawal of the bill proposed by Mr Albin Chalandon, the Justice Minister.

The marchers included well-known French actors and actresses such as Anouk Aimee and Miou-Miou, who said it was her first demonstration since the upheavals of 1968.

Mr Harlem Desir, leader of the anti-discrimination organisation SOS Racisme, estimated that more than 30,000 people took part in the demonstration.

The bill would end the automatic right to French citizenship of those born in France of foreign parents, and would tighten up on the right to acquire citizenship through marriage.

Mr Chalandon drew some of the sting from the demonstration by announcing earlier that he had asked a commission of "wise men" to examine the proposed reform. This would make it virtually impossible for the bill to pass through parliament before autumn.

"I think it would be dangerous to adopt this text in an atmosphere of ideological confrontation which creates dangerous and even unhealthy splits," he said.

Mr Chalandon said, however, that the bill had by no means been abandoned. The commission might advise modifications or a complete recasting of the project, but in one form or another reform of the nationality code would go ahead.

Under the present nationality rules about 80,000 people acquire French citizenship each year. Most pass through a naturalisation procedure, but over 20 per cent gain citizenship through being born on French soil and about 17.5 per cent through marriage.

Reagan defends Shultz and Weinberger

By Stewart Fleming, US Editor, in Washington

PRESIDENT Ronald Reagan has defended two senior cabinet officials against allegations that they failed in their duty to the President by distancing themselves from the flawed decision to sell US arms to Iran in an effort to secure the return of American hostages held in Beirut.

In his weekly radio address he said that both Mr George Shultz, the Secretary of State, and Mr Caspar Weinberger, the Secretary of Defence, "advised me strongly not to pursue the (Iran) initiative. I weighed their advice but decided in the end that the initiative was worth the risk and went forward," the President said. He added: "As we now know it turned out they were right and I was wrong."

The Tower Commission investigation of the Iran affair published earlier this month had sharply criticised both Mr Shultz and Mr Weinberger for allegedly failing to voice their opposition to the arms sales forcefully enough, a critique which has angered both men. Mr Reagan's comments were designed to meet the two officials' requests that he should take issue with this aspect of the Tower Commission's report.

Burch to head Intelsat

Mr Dean Burch, a former Republican National chairman and advisor to Presidents Richard Nixon and Gerald Ford, was chosen Friday to become director general of Intelsat, AP reports from Washington.

Mr Burch, chairman of the Federal Communications Commission from 1969 until 1974, will become the chief executive and legal representative of the communications co-operative, which has 113 member nations. Intelsat owns and operates 16 orbiting satellites which help form a worldwide communications system.

Nakasone support slips

A newspaper survey published Saturday indicates support for Prime Minister Yasuhiro Nakasone had plummeted to 25 per cent amid increasing criticism of his proposed sales tax and mass defence spending, AP writes from Tokyo. The survey by the national daily Asahi Shimbun said the number of people who back Mr Nakasone, leader of the long-ruling Liberal Democrats, fell from 39 per cent of those surveyed in December to 25 per cent in March.

Spaniards demonstrate

Thousands of anti-American protesters marched to a US Air Force base outside Madrid yesterday only hours before Mr Caspar Weinberger, the US Defence Secretary, was due to arrive for an official visit to Spain, Reuter reports from Madrid.

David Marsh looks at the plutonium deals of a controversial nuclear factory

'French connection' boosts German N-plant

PLUTONIUM FROM French nuclear power stations has been sent to West Germany's controversial Alkem atomic factory for turning into fuel for German nuclear reactors.

Stocks of the radioactive and toxic metal produced in power plants owned by Electricité de France (EdF), the French state utility, have supplemented the plutonium from West German nuclear reactors which is the main material handled in the Alkem plant.

News of the cross-border plutonium transactions, part of discreet business arrangements between the French nuclear industry and German power station operators, has emerged as a political row over Alkem has reached a new peak.

Additionally, Alkem and its parent company, Nukem, were at the centre of a plutonium scare at the weekend as a result of two separate incidents.

Nukem, which handles highly enriched uranium for fuelling research reactors, revealed that an employee two weeks ago was contaminated with small amounts of plutonium mysteriously mixed with a consignment of uranium.

Nukem has closed down a section of the plant pending investigations but has denied that the health of 18 people working in the department could be in danger.

Alkem, meanwhile, said that on Friday one of its staff received a small radioactive dose from a tear in a plutonium-handling glove.

The state (Land) government of Hesse, which has jurisdiction over both the Alkem and Nukem plants at Hanau near Frankfurt, was criticised sharply by Mr Walter Wallmann, the Bonn Environment Minister, for failing to inform the central government of the Nukem incident a fortnight ago.

Hesse has also placed itself on a collision course with Bonn by blocking Alkem's request for full operating permission to handle plutonium under Germany's complex nuclear regulatory procedures.

In view of the stalemate, the federal constitutional court, which rules on disputes between the central government and the Laender, is likely to be asked this week to intervene.

Alkem, controlled by the giant Siemens group, is one of the world's most experienced civilian plants handling plutonium, which is formed as a by-product from the burning of uranium in nuclear power stations.

The plant has drawn heavy opposition above all from the Greens, the ecology party. In protest over Germany's move into the "plutonium economy" the Greens last month left the Coalition government in Hesse with the Social Democratic Party (SPD), forcing new state elections next month.

Alkem normally handles up to 1 tonne of plutonium a year which is separated from spent German reactor fuel mainly at France's nuclear reprocessing plant at La Hague on the Normandy coast.

Underlining the close links in the plutonium cycle between the French and German plants, Mr Wolfgang Stoll, the Austrian-born general manager at Alkem, says that Alkem is essential to provide the next stage for the plutonium produced in France. "If we break down here, then La Hague will have to close down," he says.

Alkem is believed to be running at a plutonium throughput of about 780 kilograms a year, but plans to increase capacity to around 3 tonnes a year during the 1990s.

The plutonium is fabricated at Alkem, amid conditions of tight security which include a new DM 4m boundary fence, into so-called "mixed oxide" (Mox) plutonium-uranium fuel for recycling in German nuclear power stations.

Plutonium from German plants has recently been supplemented by stocks of the element from EdF power stations. This is a result of complex "swap" arrangements worked out with Cogema, the French state-controlled nuclear fuels company which runs the La Hague plant.

The "swaps" have been arranged for essentially technical reasons. This is partly because France has no immediate use for plutonium separated from spent fuel from EdF plants.

Additionally, some spent fuel from EdF plants has recently been sent to La Hague to replace fuel elements from the large German utility Rheinisch Westfaelisches Elektrizitaetswerk (RWE) which cannot currently be handled by the La Hague reprocessing machinery.

Confirming the plutonium swaps, a French nuclear official said they were "routine." He added that the movements had been carried out in "complete agreement" with international nuclear energy agency (IAEA) and the EEC's nuclear energy body, Euratom, which keep checks on plutonium transfers to guard against possible diversion of nuclear materials to make atomic weapons.

Mox fuel loading into EdF power stations is due to start up only this summer. German N-plants have been carrying out Mox recycling for several years, with the number of N-plants scheduled to receive Mox from Alkem planned to rise to eight in the next few years.

EdF has reprocessed only a few hundred tonnes of spent fuel at La Hague, while German utilities have accounted for a large proportion of the cumulative 1,670 tonnes of spent fuel from light water nuclear reactors (separating roughly 16 tonnes of plutonium) which have been sent through La Hague over the last decade or so.

Portugal-China talks on Macao

Portugal and China will begin a fresh round of talks on the futre of the Portuguese-administered territory of Macao in Peking next Wednesday, the Foreign Ministry said Saturday, Reuter reports from Lisbon.

The formal announcement of the new round of negotiations—the fourth held between the two countries since June—was made in a joint statement.

Diplomatic sources said an agreement over the future of Macao, which Portugal has ruled since the 16th century, could emerge from the latest round of talks. Lisbon has already conceded sovereignty over the tiny enclave on the China coast.

Honecker discusses West visit

BY LESLIE COLITT IN LEIPZIG

MR ERICH HONECKER, the East German leader, held talks with the governing mayor of West Berlin, Mr Eberhard Diepgen, in Leipzig yesterday, a meeting which is expected to determine whether Mr Honecker will make his first visit to West Berlin next month.

Mr Honecker's acceptance of an invitation extended last week by Mr Diepgen to attend a ceremony marking the 750th anniversary of Berlin is likely to hinge on whether Mr Diepgen accepts a controversial invitation for Mr Honecker to take part in the anniversary celebration in East Berlin.

The West German Chancellor, Mr Helmut Kohl, said yesterday he was willing to meet Mr Honecker in West Berlin.

The meeting in Leipzig was one of several Mr Honecker had with prominent West German politicians visiting the spring East-West trade fair. Mr Martin Bangemann, West Germany's Economics Minister, conferred with Mr Honecker about boosting East-West German trade, which fell 9 per cent last year.

Mr Honecker also met Mr Franz Josef Strauss, State Prime Minister of Bavaria, who was instrumental in obtaining Bonn Government backing for a DM 1bn (£342m) loan to East Germany several years ago.

Margie Lindsay adds: British trade with East Germany is at too low a level and needs to increase greatly, the British Trade Minister, Mr Alan Clark, told Mr Honecker at the fair's opening.

Last year Britain had a trade deficit of over £100m with East Germany. Exports, made up mainly of manufactured chemicals, machinery and vehicles and metal ores and scrap, totalled about £81.28m.

Ozal to leave US after surgery

THE TURKISH Prime Minister, Mr Turgut Ozal, will return to Turkey towards the end of this month, but he is under doctors' orders to avoid travel and arduous duties for the next three months, David Barchard reports from Ankara.

Mr Ozal has been in the US for the past five weeks after a triple by-pass heart operation on February 10. His doctors say he has made a strong recovery.

During his absence, Turkey's political life has begun to feel increasingly rudderless and there has been growing concern over the delay in Mr Ozal's return.

Deal on rubber prices agreed at UN conference

BY WILLIAM DULLFORCE IN GENEVA

RUBBER-PRODUCING and consuming countries have agreed at the fourth attempt on the terms of a price-stabilising accord for the $3.3bn-a-year (£2.09bn) rubber trade.

Compromises reached early on Saturday at the United Nations rubber conference in Geneva should open the way for final acceptance by the end of the week of the text of an International Natural Rubber Agreement (Inra).

Last October Malaysia, Indonesia and Thailand, the largest producers, abandoned their demand for a reference price of 265 Malaysian/Singapore cents a kilo at the centre of the price adjustment mechanism in the new Inra.

They agreed to take the present reference price of 201.66 cents, which compares with a current market price of about 195 cents.

The deal struck on Saturday meets both the producers' claim for a floor price of 150 Malaysian/Singapore cents a kilo and in large measure the major consumers' insistence that the new Inra to come into force in October should provide for greater flexibility in adjusting the rubber price to market trends.

A breakthrough came last Friday when the leading consumers, the US, West Germany, France and Britain, dropped their demand that the "indicative" or floor price should be automatically lowered if the buffer stock, currently 360,000 tonnes, reached 450,000 tonnes.

Instead it was decided that, if the buffer stock reached 400,000 tonnes, the price level for implementing a move into the additional contingency stock of 150,000 tonnes should be 152 cents a kilo or 2 cents above the floor price.

The consumers' claim for more frequent price reviews, at 12-month rather than 18-month intervals, was settled by agreement on a review every 15 months. Their desire for more automatic price adjustments was also met partially.

If the average Daily Market Indicator Price—currently about 195 cents a kilo—has been above or below the reference price in the six months preceding a review, the reference price will be adjusted automatically by 5 per cent, unless the International Rubber Organisation Council decides on a larger adjustment.

Central Americans urge renewed coffee pact talks

BY PETER FORD IN MANAGUA

FIVE Central American countries on Friday called for urgent consultations among coffee producers to pave the way for renewed negotiations with consumers on the imposition of export quotas.

Economy ministers from Nicaragua, Honduras, Costa Rica, Guatemala and El Salvador agreed to send a mission to Brazil "as soon as possible" in a bid to reach an accord on the distribution of quotas.

"The drastic fall in coffee prices" since an International Coffee Organisation (ICO) meeting failed to set new quotas two weeks ago, "is absolutely unmanageable" for the Central Americans, all of whom are highly dependent on coffee earnings.

The ICO meeting broke up when leading coffee consumers, headed by the US, refused to accept a renewal of the quota system until producers rearranged their shares and Brazil refused to give up any quota market.

Two Central American countries, Costa Rica and Honduras, are among the eight producers who supported the US against Brazil. Nicaragua meanwhile, as the only Latin American nation whose market share would remain unaffected by a quotas redistribution, is seeking to mediate in the dispute.

Though Central America accounts for only 12.8 per cent of the world coffee market, the precarious economies have all been hit hard by the year-long fall in coffee prices and the sudden slump this month.

Marcos 'hid' part of fortune in Philippines

THE HEAD of a Philippine panel tracking illegal wealth amassed by former president Ferdinand Marcos and his associates said yesterday they still controlled large funds circulating in the country's economy, Reuter reports from Manila.

Mr Ramon Diaz, chairman of the Presidential Commission on Good Government (PCGG) said: "There is every reason to believe that the cronies and President Marcos and his family were able to hide millions and millions of pesos before they fled."

"As a matter of fact we have been able to get hold of crates of newly printed currency," Mr Diaz said. He said he had personally seen large quantities of mint-fresh 50 peso ($2.50) bills which carried no serial numbers.

Mr Diaz did not cite figures, but said: "We believe they (Marcos and his associates) still have a lot of funds. These are the funds that they will use in the coming elections. These are the funds that they used to stage those coups."

He was referring to congressional elections scheduled for May 11 and to the three coup attempts faced by President Corazon Aquino since she toppled Marcos a year ago. The polls are being contested by parties across the political spectrum.

Mr Diaz said the PCGG had so far recovered cash and property valued at about 8bn pesos and sequestrated shares of stock of at least 286 companies.

"We have achieved more than we thought we could achieve in one year," he said. "It has been a very fruitful year."

The PCGG, set up by President Aquino in February last year, has sweeping powers of sequestration, seizure, and inspection of bank accounts.

Mr Diaz said the panel's main task was to gather evidence for legal prosecution. "But we have to sequester before we file a case and that is the legal objection because they say that we shoot first before we ask questions," he said.

He said dividends from seized shares were held in trust funds pending court verdicts. Several Marcos associates had made confessions about their wealth. He did not name them.

"They are very concerned and afraid that if their names appear something may happen to them," he said.

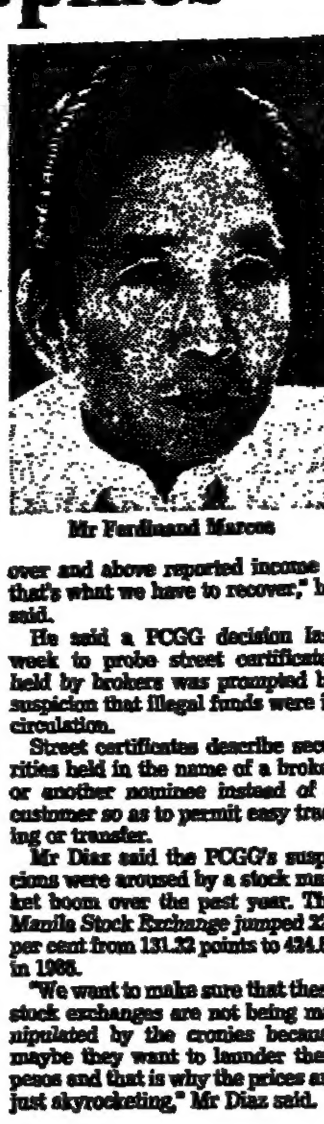
The government announced last week that businessman and Marcos associate Mr Antonio Floirendo had turned over 70m pesos in cash to the PCGG and pledged to surrender titles to property in New York and Hawaii worth another 180m pesos.

In return, the PCGG said it had lifted freeze and sequestration orders on Mr Floirendo's properties.

Mr Diaz said similar preliminary agreements already existed with another Marcos associate, Mr Roberto Benedicto, who had large sugar interests during former President Marcos's rule.

He said Mr Benedicto had surrendered control of several newspapers and radio and television stations and agreed the PCGG could nominate two-thirds of the directors on the boards of a bank and a hotel he owned in the Philippines.

Mr Diaz said the PCGG based its estimates of illegal wealth on the income-tax returns and land titles of Marcos associates. "Anything over and above reported income – that's what we have to recover," he said.



Mr Ferdinand Marcos

He said a PCGG decision last week to probe street certificates held by brokers was prompted by suspicion that illegal funds were in circulation.

Street certificates describe securities held in the name of a broker or another nominee instead of a customer so as to permit easy trading or transfer.

Mr Diaz said the PCGG's suspicions were aroused by a stock market boom over the past year. The Manila Stock Exchange jumped 224 per cent from 131.32 points to 424.81 in 1986.

"We want to make sure that these stock exchanges are not being manipulated by the cronies because maybe they want to launder their pesos and that is why the prices are just skyrocketing," Mr Diaz said.

Human rights upset greets Moi

BY MICHAEL HOLMAN, AFRICA EDITOR

PRESIDENT DANIEL ARAP MOI arrived in London yesterday for talks today with Mrs Margaret Thatcher, the Prime Minister, amid growing concern about allegations of human rights abuses in Kenya.

During the President's visit to Washington last week, when he met President Reagan, the State Department underlined US anxieties by issuing a statement urging the Kenyan Government to investigate the allegations, saying that a report by Amnesty International which claims the increasing use of torture by Kenyan police on detainees held without trial raised "serious questions."

A US administration official said that President Reagan himself had stressed the importance of Kenya's maintaining high standards on human rights. President Moi was scheduled to hold talks with Mr Javier Perez de Cuellar, the UN secretary general, before leaving for London but cancelled the arrangement without explanation.

Many of the detainees are suspected supporters of Mwakenya, a shadowy left-wing opposition movement. Mr Gibson Kuria, a prominent Nairobi lawyer who has defended detainees has himself been arrested, but before his detention arranged for the release of affidavits by his clients alleging police torture.

The allegations have so far had little impact on the traditionally close ties between Kenya and Britain. Earlier this month Mr Christopher Patten, the Minister for Overseas Development, announced a £50m development aid grant.

For both the US and Britain, Kenya plays an important strategic role in East Africa.

Indian express train derailed by bomb

AN INDIAN express train was derailed by a time bomb and plunged off a bridge yesterday, killing up to 25 people, Reuter reports from Madras.

According to government report the Rockfort Express was derailed by a small bomb on Marudayar Bridge, 60 km from Tiruchirapalli in Tamil Nadu state.

The engine and eight coaches of the train fell from the bridge into the dry river bed below.

The official statement said 18 people, including seven railway employees, were killed. The Press Trust of India (PTI), citing unofficial sources, said as many as 25 could have died and state-run All India Radio put the toll at 22.

Officials estimated 67 people were injured but PTI said up to 150 people could have been hurt.

It quoted K. V. Balakrishnan, Southern Railways general manager and a passenger on the train, as saying the derailment was "a clear case of sabotage." The official statement said a piece of rail had been removed from the bridge.

A police press statement said authorities had uncovered vital clues at the site and expected to make arrests in the next few days.

The statement gave no details but the PTI, quoting official sources, said several pamphlets apparently connected to a Tamil Nadu-based extremist group were found near the bridge.

The news agency said the group had links with Sri Lankan Tamil guerrillas and Sikh extremists in Punjab.

According to the PTI, police recovered a battery and several long fuse wires near the site, indicating that a timing device was used to detonate the bomb.

A railway spokesman said earlier at least 150 metres of track had been torn up by the explosion and that another explosive device and some wires had been found nearby.

There has been sporadic political violence recently between rival political parties in Tamil Nadu, India's southernmost state.

The state has also experienced serious protests against the use of Hindi, the north Indian tongue used as India's national language but opposed by many Tamils who speak an ancient Dravidian Language.

Madras, the state capital, also serves as headquarters to quarrelling Sri Lankan Tamil guerrilla groups fighting for an independent homeland on the island. Several recent violent incidents in the state have been blamed by police on conflicts between the groups.

The police press statement said "sensitive sections" of Tamil Nadu railways were being patrolled but gave no details.

The PTI said the express' engine driver and guard were among those killed. The diesel engine was wrecked and the seven passenger coaches and one postal van were badly damaged.

Nine other coaches remained on the tracks, the PTI said.

Mexico suspends scheme to convert debt to equity

BY ALEXANDER NICOLL IN NEW YORK

MEXICO HAS temporarily suspended a scheme under which foreign creditors can convert debt into equity in Mexican companies.

Mr Adolfo Hegewisch, Mexican Under secretary of Commerce, told a conference in New York on Friday that Finance Ministry staff had been unable to cope with a flood of applications under the scheme.

Some bankers, however, believed the suspension was designed to put pressure on banks to complete their commitments to a $7.7bn new loan, part of the rescue package arranged for Mexico last year.

Signing of the loan is due to begin on March 20. It is 97 per cent subscribed, but this leaves many small creditors still to come in.

From mid-1986 until the suspension, Mexico had been cancelling loans at the rate of about $100m a month through conversions under the scheme. Mr Hegewisch said that this year 132 applications had been received by mid-February, and that there was not sufficient staff to review them.

Ecuador 'unable to service debt' following earthquake

ECUADOR yesterday announced a tough austerity programme and reaffirmed its decision to suspend debt payments to private foreign banks.

President Leon Febres Cordero, who has in the past made debt payment a matter of honour, said during a visit to the zone hit by an earthquake on March 5 which left 300 people dead and disrupted the economy that the country did not have the funds to service its $8.16bn debt.

Presidency Minister Patricio Quevedo announced austerity measures including budget cuts of up to 10 per cent, a freeze on hiring government workers and reductions in salaries of top officials, including the Cabinet and President.

An Information Ministry communique quoted the president as saying: "We have to ratify this suspension . . . on debt service to the private international banks because physically and materially we don't have (the means) to pay.

"I'm not ashamed to say it, there definitely isn't a way to pay," he added.

In January, Ecuador suspended payments to private foreign banks, which hold two-thirds of its foreign debt, because of a slide in the world price of oil, Ecuador's main export.

Indian President attacks Gandhi

By D. P. Kumar in New Delhi

MR ZAIL SINGH, the President of India, has written to Mr Rajiv Gandhi, the Prime Minister, criticising him for failing to consult on matters of domestic and international importance as the constitution provides.

The conflict between the head of state and the head of government has raised a major constitutional issue.

Relations between Mr Singh and Mr Gandhi have been strained for some time for reasons that both men have tried to keep out of the public eye. But the rift has come into the open with publication in the Indian Express of a confidential letter the President wrote to the Prime Minister on March 9.

The letter, apparently "leaked" to the press, is likely to have a profound impact in Indian politics. This is especially because legislative assemblies of three crucial states (Marxist-ruled West Bengal, Marxist-influenced Kerala, and Jammu and Kashmir) are going to the polls in a week, and above all, because a new President to replace Mr Singh is to be elected in July.

Mr Gandhi presumably felt that Mr Singh, who is a Sikh and was at one time Chief Minister of Punjab, had not guided the government correctly on the handling of the terrorist-ridden problem state.

Mr Singh has felt circumscribed as Mr Gandhi has not only cancelled presidential trips abroad and deleted paragraphs from the President's Independence Day and Republic Day messages, but also failed to consult him on important state matters—a time-honoured convention in independent India.

Earlier this month, Mr Gandhi told the Lower House: "We have always consulted the President on issues of national importance."

But the President then wrote to Mr Gandhi, declaring that "the factual position is somewhat at variance with what has been stated by you."

In his two-page letter, the President listed instances when the Prime Minister had failed to consult or keep him briefed about important national and international issues.

Call for talks on wealth gap

BANGLADESHI President Hossain Mohammed Ershad called yesterday for a dialogue between the world's rich and poor nations to ensure a balanced growth of the global economy, Reuter reports from Dhaka.

"What is needed is a concerted move on the part of all of us," he told delegates as he opened an Asian ministerial meeting of the Group of 77, which was founded to express the economic views of developing countries.

"It will be prudent to take right steps now to negotiate . . . so that we can jointly pull ourselves out of the whirlpool of the global economic crisis," the president said.

More than 100 delegates from 32 Asian nations, including 14 ministers, are attending the three-day meeting billed as preparatory to a full G-77 meeting due to take place in Havana next month. China is attending the meeting following special invite.

Conference sources said the meeting was expected to take a united stand to protect exports from Asia's poor nations against falling prices in international markets.

Their recommendations, to be known as the "Dhaka Declaration," would be ratified at the Havana meeting of the entire group, which has now a total membership of 127, the source said.

A common recommendation would then be placed at the meeting of the United Nations Conference on Trade and Development for discussion, they said.

S Africa poll a boost for opposition

By Anthony Robinson in Cape Town

AN OPINION poll commissioned by the official opposition Progressive Federal Party (PFP) has indicated that the so-called reform alliance, which is contesting the May 6 general election, is supported by 35.4 per cent of the sample tested by a professional market research organisation. This is only marginally behind the ruling National Party, which registered 35.9 per cent.

This latest boost to the morale of the PFP and three reforming independent candidates—Mr Wynand Malan, Dr Esther Lategan, and Dr Denis Worrall, the former ambassador to London, comes amid indications of growing confusion among National Party strategists over their approach to the electorate.

The resignation last week of Mr Willem de Klerk as editor of Rapport, the most influential Afrikaans Sunday newspaper, was followed this weekend by the resignation of Mr David de Villiers as managing director of Nasionale Pers, the leading Afrikaner press group. Mr de Villiers resigned in order to support Dr Lategan

The National Party's original intention to fight the election on a right wing, xenophobic platform is now being rapidly revised.

Du Pont drops Taiwan plan

BY BOB KING IN TAIPEI

DU PONT of the US has dropped plans to build a controversal chemical plant in the central Taiwan town of Lugang after the company failed to reach agreement with townspeople about environmental concerns.

The retreat by Du Pont follows months of dispute between officials supporting the $160m plant and local people and officials opposing it. Just a week ago, demonstrators demanding an end to the project, confronted riot police for half an hour before dispersing.

Du Pont officials had consistently maintained that the plant, which was to have manufactured titanium dioxide, an industrial pigment also used to make white rubber and certain plastic, would not pose an environmental hazard to Lugang, a rural community which is the site of hundreds of historical and cultural landmarks. The company had earmarked $20m of its planned $160m investment for pollution control at the plant.

Gunmen kill Sikh politician

Suspected Sikh extremists killed a Punjab legislator linked to Chief Minister Surjit Singh Barnala yesterday, the Press Trust of India said, Reuter reports from New Delhi. Gunmen also shot dead two Hindu holy men at their headquarters.

The report said Mr Amarjit Singh was shot at close range by two gunmen on a motor-scooter in Ludhiana district. He died instantly.

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OVERSEAS NEWS

12-YEAR DIVESTMENT PROGRAMME

Singapore urged to sell most company holdings

BY STEVEN BUTLER IN SINGAPORE

A BLUE-RIBBON government-appointed panel in Singapore has recommended a massive privatisation programme to take place gradually over the next decade.

The Public Sector Divestment Committee has called for the privatisation of 41 Singapore government-controlled companies, and called for further studies aimed at divesting large parts of four statutory boards, including Telecoms, the Public Utilities Board, the Port of Singapore Authority, and the Civil Aviation Authority of Singapore.

The committee report, which is likely to form the outlines of government policy, recommends divestment that could release between S$380m and S$530m (£112m and £157m) of company shares annually for local investors over the next ten years and provide vast opportunities for foreign investors as well.

The report calls for the Government gradually to reduce its holding in Singapore blue-chip companies such as Singapore Airlines, Keppel Corporation, the Development Bank of Singapore, Sembawang Shipyards, and Neptune Orient Lines to 30 per cent, while easing limits currently placed on the foreign ownership of company shares.

The privatisation programme would be designed to take the Government out of commercial activities which no longer need to be undertaken by the public sector to broaden and deepen the Singapore stock market, and to avoid or reduce competition with the private sector.

The government has been moving gradually to reduce its holdings in the corporate sector in recent years with the partial flotation of companies such as Singapore Airlines, Resources Development Corporation, and Singapore Nation Printers. Preparations are well under way for the flotation of an operating company for the new mass rapid transit system.

The report, however, is the first comprehensive effort to set a scope for the programme and recommends what it calls a policy of "robust privatisation" in which the Government would seek to privatise as many government-controlled companies as is feasible.

The committee says that the Government should not adopt a specific timetable for divestment, but rather calls on all companies involved to begin immediate preparations for privatisation and to allow market mechanisms to introduce the necessary staggering of offers in order to prevent market indigestion.

The committee recommends holding back on the divestment of companies that have foreign government participation and companies in the Sheng-Li group, which are defence related.

The report highlights as a key problem the succession of management in the companies concerned, and calls for a gradual removal of public servants from the boards of companies earmarked for privatisation.

SHIPPING REPORT

Tanker activity rallies

BY TERRY DODSWORTH, INDUSTRIAL EDITOR

TANKER activity rallied last week from the low levels of recent months, mainly driven by a recovery in North Sea and West African business, along with an upturn in the movement of refined products.

A variety of charterers were involved in fixing medium sized tonnage from UK loading terminals, according to Galbraith's, the London shipbrokers. Prices quoted were between Worldscale 85 for 66,000 tons from Sullom Voe to Halifax, and Worldscale 77½ for 80,000 tons of crude on the shorter haul to North European terminals.

In West Africa, rates moved up approximately five Worldscale points. Fixings from Nigeria were being quoted for 120,000 tons at between Worldscale 37½ to the United States, Worldscale 40 to continental Europe, and Worldscale 42½ to the Mediterranean.

In dry cargo, the week saw a continuation of strong activity on behalf of the Russians. With this prolonged interest in Panamax size cargoes, which has been going on for two weeks, prices on the Atlantic were pushed well over $6,000 daily.

The Chinese also generated strong demand last week for grain shipments from Australia, with rates also going well over $6,000.

World Economic Indicators

RETAIL PRICES
(1980 = 100)

	Jan. 87	Dec. 86	Nov. 86	Jan. 86	% change over previous year
US	135.2	134.3	134.0	133.2	+1.5
W. Germany	120.6	120.1	119.9	121.6	−0.8
France	164.5	163.7	163.5	160.4	+2.6
Italy	206.0	204.8	204.2	197.9	+4.1
Netherlands	121.3	123.0	123.3	122.4	−0.9
Belgium	143.3	142.7	142.6	142.0	+0.9
UK	149.6	149.8	148.5	144.0	+3.9
Japan	114.5	114.6	114.8	115.4	−0.8

Source (except US): Eurostat

Communist Bengal offers a welcome to foreign industry

John Elliott reports on the uneven development of West Bengal

WHILE the world has been watching Soviet and Chinese leaders grapple with pragmatic economic and social approaches to Communism, a 74-year old Communist Chief Minister in the Indian state of West Bengal has been preparing for his government's expected re-election later this month to a third term of office.

The Chief Minister is Mr Jyoti Basu, a lawyer who learned his Communism in the gentle 1930s atmosphere of London's Inns of Court.

During the past five years he has successfully donned the mixed economy clothes of a social democrat and has made his Communist Party viable, despite India's alien environment of strong religious beliefs and caste-ridden hierachical traditions.

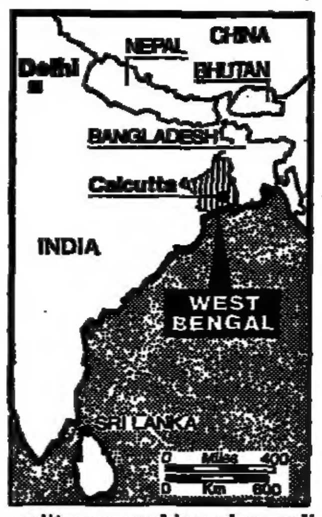
He has become a favourite of industrialists because of his moderate investment and labour policies and has helped to slow down his state's industrial decline. "We have confidence his government would not do anything to hurt you," says Mr B. M. Khaitan, a leading businessman. But Mr Basu has also retained strong support in rural areas where he started pushing through land reforms when his Left Front coalition government was first elected in 1977.

He has, however, failed to make much impression on the critical problems of the overcrowded slums and teeming streets of Calcutta, West Bengal's poverty-ridden capital, which still displays behind its overwhelming chaos and poverty some of the faded grandeur of the former capital of British India.

Mr Rajiv Gandhi, India's Prime Minister, hopes to cash in on that failure and improve his Congress I Party's position when elections are held in the state on March 23, even though he has little chance of winning. On the same day there will also be elections in two other Indian states—Jammu and Kashmir in the north, and Kerala in the south—and the results will affect Mr Gandhi's standing at a time when he has been facing increasing domestic political problems.

Mr Gandhi is making four or five election tours of West Bengal, where crowds have been responding well to him, although there is widespread criticism of his handling of agitation by the Gurkha community in the north of the state. His tours, coupled with urban disillusionment over the Left Front's performance, might win Congress I more than its current 56 seats in the 294-seat state assembly. Mr Basu's Communist Party of India-Marxist (CPIM) has a clear majority with 186 seats, as well as about another 60 from its Left Front coalition partners.

Nearly 60m people live in West Bengal, which makes Mr Basu's CPIM the largest popularly elected Communist government in the world. But the ethos of Communism is diametrically opposed to India's strong and pervasive caste system, which defies any notions of equality or working class solidarity. It is also a contradiction for such a religious country, with its dominant Hindu faith plus, in West Bengal, a strong Muslim minority.



Communists have ruled in only one other state, Kerala, which with West Bengal is one of the most literate areas of India. The common factor is that both states were affected more than other areas by early Western influence — Kerala from Christian missionaries, and West Bengal through being the seat of the British government from 1772 to 1911.

Bengal also has traditions of revolutionary fervour, sometimes violent, plus an intellectual independence, limited caste influence, and an old middle class—known as the Bhadralok (gentle folk)—which became disillusioned in 1911 when the capital moved to Delhi and its source of riches and status vanished. The Bhadralok partially provided the intellectual base, while early industrialisation, which only came to Bengal, brought some trade unionism that enabled the CPIM to build up an urban organisation.

The Congress Party lost its main left-wing strength in Bengal before independence, leaving a political vacuum which the Communists later filled, capitalising later on infighting and ineffectiveness in the Congress Party which still continues.

West Bengal's first left-led state government came to power in the 1960s. It sparked serious labour unrest, accelerating the area's industrial decline, which was worsened by appalling electricity shortages, and other infrastructure problems. The state has become the home of many of the country's "sick industries."

Mr Basu's first Left Front government, from 1977 to 1982, did little to tackle these problems, although it did implement national land reform legislation much faster than other states and since then has improved local government, rural education and water supply.

On industry, Mr Basu changed dramatically after he was re-elected in 1982, apparently accepting that his previous approach would lead to electorally damaging economic decline rather than growth. He adopted a pragmatic approach, saying: "We cannot get fundamentalist Marxist change unless we have power at the centre in Delhi. So we have to have a minimum programme, not a socialist programme."

He publicly appealed to multi-national companies to invest in "joint sector" partnerships with his state government, and is credited by all industrialists for helping solve their labour and other industrial problems.

"The last five years we have had no problems with Mr Basu's policies, which are conducive to industrial growth," says Mr Rajiv Kaul, a young industrialist whose Nicco group has major expansion plans.

"Mr Basu is prepared to make the moves that attract and consolidate foreign as well as local investment. This state is probably as good as any in India for investment—all the others have their own problems," says Mr Hugh Faulkner, a Canadian who has headed Indal, Alcan's Indian offshoot, for the past three years.

Electricity shortages, which used to involve power cuts for several hours a day, have been almost eliminated by doubling generation capacity to over 3,000 MW, plus improved management and maintenance of transmission and distribution systems.

Offshoots of foreign companies already in West Bengal such as Phillips, Siemens, Alcan, Unilever, and GEC are expanding their operations, and local Indian industrialists such as the Birla, Goenka and Khaitan families are starting projects instead of moving elsewhere with their new investments. Electronics is slowly expanding and a Rs 12bn ($900m) petrochemical plant *should lead to further new in*dustries.

But no outsiders have yet come to West Bengal with major investments, and there is considerable concern about whether the pragmatic policies would survive after Mr Basu. Progress is also hampered by *general administrative incom*petence in the state government, by continually worsening road conditions, Inda's worst telephone system, and general urban decay, which Mr Basu has not tackled.

West Bengal, however, does appear to have benefited from *having a party in power which* believes in change, in a country which usually resists anything that upsets the established order.

The Communists are not too unhappy either. Even Mr Ashok Mitra, an international left-wing economist who was *Mr Basu's Finance Minister* till he resigned in frustration last year, says: "At least we have created some mischief which is spreading—people are more aware of their rights."

INTERVIEW

Postcard prince

Prince Rainier tells Paul Betts that he is pleased with Monaco's new image

"FINALLY," says Prince Rainier of Monaco, "we are being taken seriously."

Installed in his blue and not particularly imposing office in the embassy of Monaco in Paris, the Prince readily acknowledges that his picture postcard principality is small—not much larger than London's Hyde Park—and that for generations it has been seen, in Somerset Maugham's words, as "a sunny place for shady people."

Queen Victoria, when she wintered on the Riviera, would order the curtains drawn when her train passed Monte Carlo to hide from her view what she took to be a den of frivolity, or worse.

"I would like to be remembered as the person who corrected and got rid of the bad image and bad legend of Monaco," says the Prince. During the 38 years he has run Monaco, this has been his preoccupation: to transform a faded gambling resort into a diverse centre of tourism and other businesses.

At the end of the last century gambling and the principality's belle époque casino accounted for 95 per cent of the state's annual revenues — now the casino provides less than 4 per cent of the state's income.

Another false image, now vanquished says the Prince, is that of Monaco as tax haven. "Of course people of different nationalities who establish themselves in Monaco will avoid taxation in their countries if we have no specific agreements with those countries, but not the French. The French establishing themselves in Monaco will go on paying taxes as before."

The Prince admits, however, that the pricipality continues to attract non-French tax exiles. "There is the example of Borg, the tennis player," he notes. "He established himself in Monaco, bought an apartment and a shop." Since Monaco has no tax agreement with Sweden, the tennis star, like many other foreign residents, has avoided paying taxes in his own country. Prince Rainier also acknowledges that Monaco is, of course, a tax haven for Monegasques "because they don't have to pay taxes and they don't pay death duties."

When he took over from his grandfather, Prince Louis II, in 1949, the Prince said his worry was "not to put all one's eggs in the same basket." The basket was Monaco's tourist industry which still accounts for at least 25 per cent of gross domestic product. "Tourism is a very fragile and fluctuating industry. You can have a crisis in the Mediterranean like last summer during the trouble with Mr Gadaffi and all the terrorist activity. That cut 75 per cent to 80 per cent of our American summer tourists."

The Prince believes Monaco will have to compete increasingly against faraway sea-and-sand resorts like those in the Caribbean. "With low cost air fares there is now no more distance. That will be our competition."

It has been necessary to transform Monaco and Monte-Carlo from its status as a winter resort whose prosperity was undermined by the winter sports boom. The "dead season" problem was attacked with a policy of attracting conventions and congresses. On top of that, Monaco has sought industry, "carefully chosen because we don't want to spoil the place," says the Prince. Activities range from plastics transformation to cosmetics.

One obvious further development would be to create an off-shore banking centre along the lines of Liechtenstein or the Bahamas. "But we have clauses in our treaty with France which are quite severe," says the Prince. "We could only do it if it was also in the interest of the French Government, which I think it would be."

Prince Rainier says relations with France, stormy in the days of General de Gaulle, have never been better. "For a long time we had been trying to get official recognition of our territorial waters. Under previous governments it had dragged on and on. Under Mr Mitterrand it took five months to resolve. Not that we need territorial waters. But it is a good affirmation of the existence of the principality."

The Prince is concerned, however, about the future of Tele Monte-Carlo, the Monaco-based television station controlled by France and now caught up in the Chirac Government's privatisation and reform programme. "I would not like to see the television go as a consolation prize to someone who failed to get one of the other French channels," he says. "The channel has a role to play in promoting the principality and the côte."

● PERSONAL FILE

Prince Rainier III; Louis Henri Maxence Bertrand Grimaldi, Sovereign Prince of Monaco, Duc de Valentinois, Comte de Carlades, Baron de Calvinet, Baron du Buis, Seigneur de Saint-Rémy, Sire de Matignon, etc. . . .

1923: Born Monaco: education: Summerfield School, Hastings, Rosey (Switzerland), Montpellier University and Ecole Libre des Sciences Politiques, Paris

1944: Volunteered for service in French army. Took part in Alsace campaign (1944-45)

1949: Succeeded grandfather as Sovereign Prince of Monaco

1956: Married actress Grace Kelly

1982: Princess Grace killed in car accident.

All the Prince's ambitions return, though, to the question of image. Monaco needs not only to be sunny and affluent; it needs to be safe.

"You can walk home safely after going to dinner or a show which you can't do in Nice and maybe even in Cannes," he says, a state of affairs traceable to the existence of a substantial uniformed police force, backed by a large body of plain-clothes officers.

Likewise Prince Rainier has urged the casino and the Société des Bains de Mer, which owns the casino and the main hotels and is itself 69 per cent-owned by the state, to spruce themselves up. "I want to make sure Monte-Carlo keeps its personality and its quality.

"I certainly don't want to see in Monaco some of the things I saw in Las Vegas. It was very depressing to see people in wheelchairs under the slot machines."

He also thinks that Monaco's skyline has all thetall buildings it needs. "Space has always been a problem. Building will go on because a lot of buildings in Monaco are old and have to be renovated. But permits will not be given for high rise buildings any more."

Surely, though, all the Prince's modernisations have not changed the fact that Monaco is an anachronism. "I try to suggest that Monaco is a place where you can be entertained and where you can work. The great thing to remember is that in Monaco there are 18,000-20,000 salaried people who work, out of a total population of 26,000. That is a very high ratio."

Monaco also has a strong community life. The State finances a first division football club and a symphony orchestra. "The football team is a social necessity even if it is costly. The orchestra runs a deficit every year. But then we do not have a military or defence budget so we can spend our money on more pacific endeavours, the Prince explains.

While Monaco continues to attract the rich and perhaps even more, the nouveaux riches, it is also a place were many ordinary folk live. About 3,000 Italian workers go in every day to work on construction sites. A large local population is employed in the hotel and casino business.

There is also a large eccentric Darby and Joan population. Street markets nestle among the skyscrapers, a few old fishermen still mend nets near the big yachts, and you find the same small cafes as in any French city. On the hillside of Beausoleil around Monaco there are still people who keep chickens in their backyards. You can play pétanque as well as tennis and golf in Monte-Carlo.

Anachronism or no, Monaco also continues to exert a fascination, especially in the French and Italian press, for whom the Prince's family provides a staple diet of royal drama.

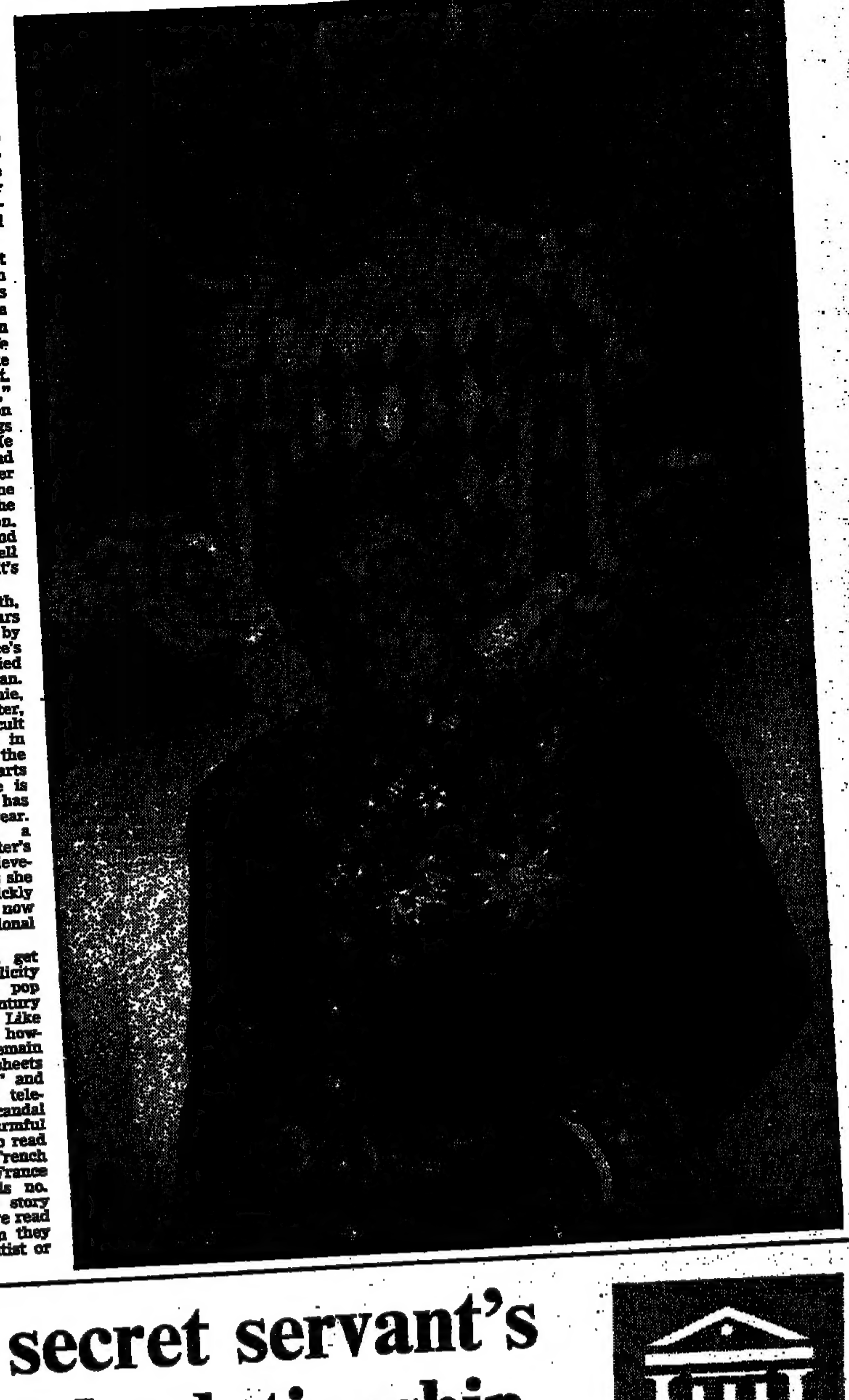
The most momentous event ws probably the tragic death in a car accident of Princess Grace in 1982. Since then there has been frequent speculation that the Prince, who will be 64 in May, is ready to make way for his son, Prince Albert.

"People make too much of it," he says about the succession issue. "Albert sits at meetings with the government. He follows through projects. And we have agreed with each other that he will take over when he feels he's ready and when he feels he knows the organisation, the system, how it works, and when I also feel he is well armed to be in the position. It's a sort of mutual agreement."

Since Princess Grace's death, the role of "first lady" appears to have been assumed by Princess Caroline, the Prince's elder daughter, who is married to an Italian businessman. Meanwhile, Princess Stephanie, the Prince's younger daughter, is becoming something of a cult figure among young people in France since she reached the top of the French pop charts with her first record. She is also a fashion designer and has launched a line of beach wear.

Prince Rainier shows a fatherly pride in his daughter's fashion and musical achievements, although he suggests she perhaps "dived in" too quickly in her singing career and now needs some serious professional training.

The Prince says "you get used to" the level of publicity that this combination of pop culture and a 12th century family traditions attracts. Like other very famous people, however, he finds it hard to remain cool about the "scandal sheets which invent the scoops" and the paparazzi with their telephoto lenses. "These scandal sheets are the most harmful because a lot of people do read them. If you ask a French person if he reads France Dimanche, the answer is no. And yet they know the story exactly. So they must have read it and they then explain they have done so at the dentist or at the coiffeur."



Where there's a will, there's a crowd

JOHN PLENDER

ANYONE who believes that the British Labour Party's industrial policy is an ideological leftover from the 1960s, or that it is just plain left, should think again. Most of it could well be implemented by a future Tory government—especially if Mr Michael Heseltine's political star is due to rise again.

Indeed, those parts of Mr Heseltine's new book entitled Where There's a Will, which relates to making British industry more competitive could almost have been written by Labour's Trade and Industry spokesman Mr John Smith. Witness demands for:

- A greatly strengthened Department of Trade and Industry to improve liaison between industry and government departments, and greater seniority for the Secretary of State in Cabinet;
- A diminished job for the Treasury, which is alleged to treat the City's views with excessive respect while dismissing those of industry as special pleading;
- An enhanced role for the National Economic Development Office with the Trade and Industry Secretary replacing the Chancellor of the Exchequer in the chair, to encourage government and industry to work together in identifying which markets need developing in the national interest and which are under threat;
- A distaste for planning in the sense of laying down targets and rules (compare and contrast with Mr Smith's "I am not interested in Gosplan and factories producing a surfeit of left boots"), combined with a certain lack of precision in defining how planning will work;
- Special emphasis on maintaining the steel, cars and aerospace sectors, which are regarded as vital to Britain's remaining an advanced economy; and
- An enhanced role for government procurement in support of industrial policy.

There is, of course, the odd difference of nuance. I doubt, for example, whether Mr Smith would be sympathetic to the kind of tax changes that Mr Heseltine favours for the smaller end of the corporate spectrum. Yet both men clearly regard industrial policy as some kind of rallying cry for the post-North Sea oil era. Could it prove to be for the late 1980s what monetarism was for the late 1970s? And what is it that makes such an idea politically saleable in the first place?

The American writer H. L. Mencken once remarked that for every complex problem there is a solution which is neat, plausible and wrong. Where economic policy is concerned, politicians have elevated this perceptive little aphorism into a categorical imperative. In fact the saleability of any given economic policy appears nowadays to bear no relation to its economic merit at all.

Consider the British experiment with monetarism. There was nothing in economic theory to support the politicised version of the doctrine peddled to the electorate by Mrs Thatcher in 1979; and indeed it subsequently turned out to be inoperable. Nor was it irredeemably "right wing." The core of the policy, adherence to money supply targets, was already being operated by a Labour Chancellor, Mr Denis Healey.

The US experiment with supply side tax cuts is a more simple version of the same thing. There is nothing in economic theory to suggest that tax cuts automatically pay for themselves and a great deal in history to suggest quite otherwise. Yet President Reagan, with a little American-style marketing from Mr Laffer and his curves, in effect resurrected the free lunch; and, if you will excuse the solecism, the American electorate bought it. Or perhaps it isn't a solecism, for with the budget deficit running at well over $150bn a heavy bill will ultimately thump down on the US doormat.

Judged by this demanding standard, industrial policy, or national competitiveness, certainly has some appeal for politicians. Not only does it offer them a wider range of knobs and levers to play with; it holds out the hope of a continuing world role for those who are having difficulty reconciling themselves to their status as a medium-sized power. It is also suspect economically, in the sense that all countries cannot make themselves more competitive against each other.

Where it falls down is in failing to make a sufficiently outrageous appeal to individual members of the electorate. To be invited to become more competitive in order to create jobs for others is far less tempting than to be invited to participate in a free lunch. And if all those surveys produced by the European Commission are anything to go by, the British people are much happier with their lot than most;

Another questionable feature is that some very successful countries like Japan have tried industrial policy and made a go of it. The clinching argument against, however, is that the last political contender to give it a run, with Japan much cited in evidence, was the US Presidential candidate Mr Walter Mondale. Where is he now?

None of this, of course, is intended to reflect on the economic merits of industrial policy; merely its political saleability quotient.

The secret servant's special relationship

JUSTINIAN

IF, as seems highly probable, the Government decides to appeal against the judgment of Mr Justice Powell in the MI5 memoirs case, the focus of this most intriguing piece of litigation in the Australian courts, in which the absolutist claims of national security are pitched against unbridled freedom of expression, will shift perceptibly from the evidential to the substantive law. Therein lies the Government's hope of ultimate success on appeal.

At heart the case is about the nature and extent of the confidentiality that resides in the information possessed by an individual who has been engaged in the security services of a liberal democracy that professes the principle of open government.

The Government's claim is based on the existence of a contractual obligation by Mr Peter Wright, not to reveal, at any time during or after he left Crown service, any information acquired in the course of his duties for MI5. Had there been a contractual relationship it appears that Mr Justice Powell would have found in favour of the British Government although as a matter of discretion, he might not have banned publication of Mr Wright's memoirs on the ground that the contents of the proposed publication were stale and posed little risk of harm to national security.

Mr Justice Powell is probably right in concluding that there is no contractual relationship between the Crown and the civil servant who is in theory dismissable at will. But the reality is that the management-staff relationship is governed by an elaborate code of practice which cannot, since the GCHQ decision in the House of Lords, be altered without consulting the staff and their trade unions. Civil servants may not have rights in private law; they certainly have rights at public law. But if they are now legally blessed with rights, the law will recognise that they have public law duties. There is the rub.

Mr Justice Powell acknowledged that, in the absence of any contractual relationship, there was still what he regarded as an "equitable obligation"—in other words a private law obligation of confidentiality. The publishers, Heinemann, did not seriously dispute that there was some obligation of confidentiality, they merely disputed its extent. Staleness in the disclosed material and lack of any real harm to the public interest, they argued, excluded any application of confidentiality.

Mr Justice Powell accepted the basis of that defence. The bulk of the book, which could claim no scholastic pretensions, had all been publicly revealed in one form or another. The contents of the book no longer bore the brand of confidentiality on its forehead. There was, the judge found, no likely detriment to national security and public interest such that disclosure should be prevented.

The point at which Mr Justice Powell seems to slide off the crucial issue is the effect of the relationship of the civil servant to the Crown. Indeed he thought that the extent of the obligation founded on confidentiality was less than it would be in contract.

The fact is that a civil servant is in a fiduciary relationship to the Crown to which legal effect will be given in public law. Although English judges have never attempted to formulate a definition of a fiduciary it is not seriously doubted that a civil servant owes a special relationship of loyalty to the Crown, whether or not he occupies that position contractually.

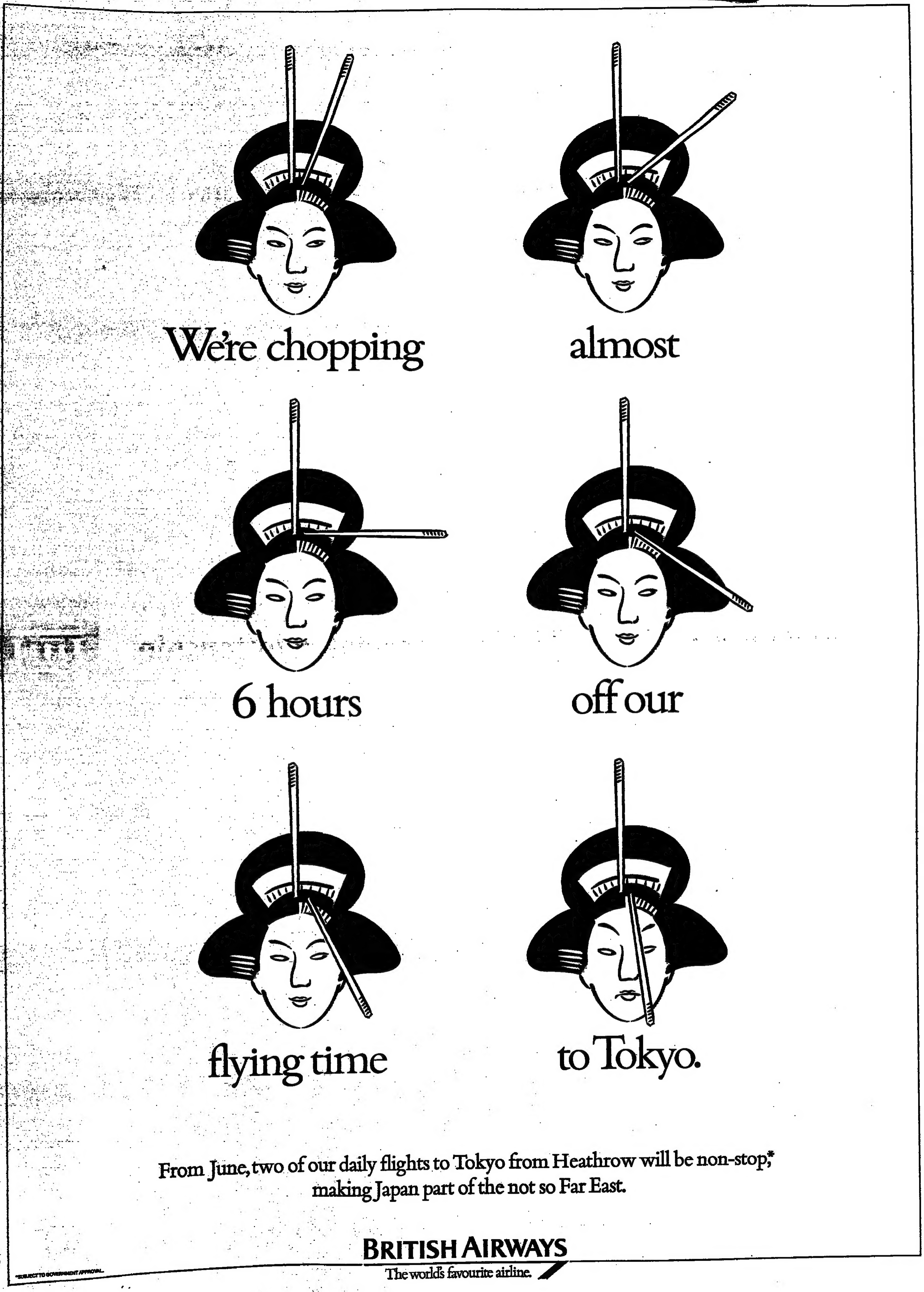
The archetypal fiduciary is the trustee. But there are other classes of persons who stand in a fiduciary relationship. A fiduciary duty springs into existence whenever there is an element within or superimposed upon some other relationship such as master and servant. That element exists where the relationship involves the reposing of confidence or trust by one person in another.

A member of MI5 must be acutely aware that his selection for service in the cause of his nation's security essentially involves a profound sense of trust being reposed in him to protect the most jealously guarded secrets of government. There is no higher degree of confidentiality; it transcends even the obligation that might be imposed in a written contract and is more compelling in its legal impact than the "equitable obligation" formulated by Mr Justice Powell.

It is entirely appropriate that the development of the concept of a fiduciary in the Anglo-Saxon systems of law should now be in the hands of the Australian judiciary. In a case in the High Court of Australia three years ago* the judges fully explored this topic. Their judgments are a repository of legal learning on a developing branch of law.

Predicting the final outcome is inviting. But in a field where there are as many judicial views as there are judges, prediction is imprudent.

* *Hospital Products Ltd v United States Surgical Corporation (1984) 156 CLR 41.*


We're chopping
almost
6 hours
off our
flying time
to Tokyo.
From June, two of our daily flights to Tokyo from Heathrow will be non-stop,*
making Japan part of the not so Far East.
BRITISH AIRWAYS
The world's favourite airline.
*SUBJECT TO GOVERNMENT APPROVAL.

DIARY DATES

PARLIAMENT

TODAY

Commons: Immigration (Carriers *Liability*) Bill, second reading.

Lords: Banking Bill, committee. Motion on the Industrial Relations (Northern Ireland) Order 1987.

Select committees: Foreign Affairs—subject: Cyprus. Witness: Rt Hon Julian Amery MP (Room 15, 5 pm). Public Accounts — subject: Export Credit Guarantee Department accounts. Witnesses: ECGD officials (Room 16, 5 pm).

TOMORROW

Commons: Budget statement and debate.

Lords: Billiards (Abolition of Restrictions) Bill, committee. Social Fund (Maternity and Funeral Expenses) Bill, third reading. Abolition of Domestic Rates (*Scotland*) Bill, second reading. Unstarred question on violent assaults on workers.

Select committee: Education, Science and Arts—subject: special educational needs. Witnesses: Voluntary *Council* for Handicapped Children (Room 15, 10.40 am).

WEDNESDAY

Commons: Continuation of budget debate.

Lords: Debate on the Croham Report on the University Grants Committee. Debate on the need to curb the increasing exposure of the professions to civil liability. British Railways (London) Bill, second reading.

Select committees: Foreign Affairs — *subject*: Cyprus. Witness: Mr George Jacovon. Minister of Foreign Affairs of *Cyprus (Room 16, 10.30 am)*. Welsh Affairs — subject: the condition and repair of privately owned housing. Witnesses: Riverside Partnership; Confederation of Building Trade Employers; Islywn Borough Council. (Room 18, 10.30 am). Trade and Industry — subject: motor components industry. Witness: Armstrong Equipment (Room 15, 10.45 am). Defence—subject: the *implications for* the UK of strategic defence. Witnesses: Professor Sir Ronald *Mason*, chairman of Hunting Engineering; Dr Dennis Hall, Department of Laser Physics. University of Hull (Room 17, 10.50 am). Energy — subject: the effect of oil and gas prices in the North Sea. Witnesses: UK Offshore Operators Association; Conoco (UK) (Room 8, 11.15 am). Social Services — *subject*: problems associated with AIDS. Witnesses: Association of Directors of Social Services; Association of District Councils; Association of British Insurers (Room 21, 4.15 pm). Environment — subject: *pollution* of rivers and estuaries. Witness: National Farmers Union (Room 20, 4.30 pm). Trade and Industry — subject: motor components industry. Witnesses: T. I. Group; Avon Tyres (Room 16, 4.30 pm).

THURSDAY

Commons: Continuation of the budget debate.

Lords: Consumer Protection Bill, third reading. Patents (Amendment) Bill, *committee*.

Select committee: European Legislation — subject: Common Agricultural Policy price proposals. Witnesses: Rt Hon Michael Jopling, MP, Minister *of* Agriculture. (Room 15, 4.30 pm).

FRIDAY

Commons: Private members *motions*.

FINANCE

The following is a record of the principal business and financial engagements during the week. The board meetings are mainly for the purpose of considering dividends and official *indications* are not always available whether dividends concerned are interims or finals. The sub-divisions shown below are based mainly on last year's timetable.

TODAY

COMPANY MEETINGS—
Eurotherm Intnl, Beach Hotel, Worthing, Sussex, 12.00

BOARD MEETINGS—
Finals:
Aust Agri Inds
Bedford (Wm)
Cambridge Elec Inds
Eucalyptus Pulp Mills
Fisher (James)
Lincroft Kilgour
Meggitt Hldgs
Metalrax
Pearson
Process Systems
Rockwell
Sketron
Sunleigh Elecs
Suter
Transport Dev
WPP Grp
Interims:
Bailey (Ben)
London and Strathclyde Tst
MAI
Pac Sales Orgn
Renishaw
Savage

DIVIDEND & INTEREST PAYMENTS—
Agricultural Mortgage Corpn 7¼pcDb 1991-93 3⅝pc
Alphameric 0.75p
Christiania Bank OG Kreditkasse Flts Rate Notes 1989 $9.43. Bell Flts Rate Notes 1991 $555.22
Cummins Engine 55 cts
DAB Invests 42.5 cts
Edinburgh Invest Trust 3.65pcPf 1.825pc
FPL Group 51 cts
Ford Motor 3.25 cts
GT Japan Invest Trust 0.4p
Honeywell 50 cts
Howard Shuttering 0.8p
Hutton (E. F.) 22 cts
Rockware Group 0.71p
Smith (W. H.) A 2.4p, B 0.48p
Treasury 2pc IL 1996 1pc
Trinova Corpn 25 cts

TOMORROW

COMPANY MEETINGS—
East Worcestershire Waterworks, 46 New Road, Bromsgrove, 12.30
Everards Brewery, Castle Acres, Narborough, Leicester, 12.15
First Leisure, Prince of Wales Theatre, Coventry Street, W, 12.00
KLP Group, 1 Craven Hill, W, 12.00
Meldrum Invest Trust, 2 St Mary Axe, EC, 11.30
Soundtracs, 55 Grosvenor Street, W, 10.30
Vantage Securities, 7, Lincoln's Inn Fields, WC, 4.30

BOARD MEETINGS—
Finals:
AE
Charterhall
Expamet Intnl
Jamesons Chocolates
Laing Props
Rotunda
Systems Designers
Interims:
B M Grp
Paterson Zochonis

DIVIDEND & INTEREST PAYMENTS—
Focus Overseas Finance Flts Rate Notes 1997 $168.12
Korea Exchange Bank Flts Rate Notes 1995 £143.32
Smith (David S.) 1.75p

WEDNESDAY MARCH 18

COMPANY MEETINGS—
Camford Eng, *Blakemore* Hotel, Little Wymondley, Stevenage, 12.00
Countryside Props, Great Eastern Hotel, Liverpool Street, EC, 12.00
Evode Group, Tillington Hall Hotel, Eccleshall Road, Stafford, 12.00
Rank Organisation, Gloucester Hotel, Harrington Gardens, SW, 11.00
TSL Group, *Neptune Road*, Wallsend, Tyne and Wear, 12.00
Union Discount, 39 Cornhill, EC, 12.00

BOARD MEETINGS—
Finals:
Ambler
Ault and Wiborg
Assam Dooars
Barker (Charles)
DRG
Duncan (Walter) and Goodricke
Jones and Shipman
Halls Homes and Gardens
Mackay (Hugh)
Morgan Grenfell
Norsk Systems
Tod
Turner and Newall
Utd Biscuits
Waterford Glass
Waterford Wedgewood
Watmoughs
Western Dooars Tea
Interims:
Armitage Bros
Intnl City Hldgs
Logica
Pochin's
Scholes (George)
Sirdar
TSW-Television South West

DIVIDEND & INTEREST PAYMENTS—
Arab Banking Corpn Flts Rate Notes 1996 $311.09
Brooke Tool Engineering 0.825p
Credit National Flts Rate Notes 1992 £141.76
McKay Securities 2p
Marine Midland Banks Flts Rate Notes 2009 $164.06
Riggs National Corpn Flts Rate Notes 1996 $165.62
Standard Chartered Prim Cap Flts Rate Notes £142.55
Vantage Securities 1.4p

THURSDAY MARCH 19

COMPANY MEETINGS—
Appledore (A. and P.J.), Connaught Rooms, Great Queen Street, WC, 12.00
Kleinwort Charter Invest Trust, 10 Fenchurch Street, EC, 12.45
Lonrho, Grosvenor House, Park Lane, W, 11.30
River and Mercantile Trust, Connaught Rooms, Great Queen Street, WC, 12.00

BOARD MEETINGS—
Finals:
Britoil
Clarke (T.)
Delaney Grp
Enterprise Oil
Glentree
House of Lerose
Legal and General
OCE (UK)
Octopus Publishing
Reliant
Spong
Superdrug
Williams Hldgs
Interims:
Barratt Devs
GR Hldgs
Gent (S. R.)
Marler Ests
Town Centre Secs
Walker (Thomas)
W Yorkshire Independent Hospitals

DIVIDEND & INTEREST PAYMENTS—
Abbey National Bldg Society Flts Rate Notes 1991 £283.92
Bromsgrove Inds 0.5p
Citicorp Overseas Finance Flts Rate Notes 19/9/1996 $164.08
Dacian Hldgs 5p
Douglas (Robert M.) 1.2p
Leumi Intnl Invests Flts Rate Notes 1995 $32.05
Marine Midland Bank Flts Rate Notes 1996 $165.63
Ransomes Sims and Jefferies 8pcPf 1.825p
Treasury 11¼pc 2001-04 5⅝pc
Union Discount 29p

FRIDAY MARCH 20

COMPANY MEETINGS—
Brunner Invest Trust, 10 Fenchurch Street, EC, 12.45
Drayton Far Eastern Trust, 11 Devonshire Square, EC, 12.00
Goode Durrant and Murray, Durrant House, Chiswell Street, EC, 10.00
Newman Tonks Group, National Motorcycle Museum, Coventry Road, Bickenhill, 12.00
Trust of Property Shares, Park Home, 15 Finsbury Circus, EC, 11.00

BOARD MEETINGS—
Interims:
Minerals and Resources Cpn
Zambia Copper Inv

DIVIDEND & INTEREST PAYMENTS—
Baroe Corpn 52 cts
Ewart New Northern 0.5p
Exchequer 10½pc 2005 5¼pc
Inco 5 cts
M & G Americas & Gen 1.8p
M & G Intnl Growth 4.3p
North Kalgurli 1 cent
Owen and Robinson 0.25p
Perkins (John) Meats 0.6p
Pfizer 45 cts
River and Mercantile Trust 4.2p
Royal Bank of Canada Flts Rate Dbs 2005 $5.10467
Smithkline Beckman 0.75 cts
Wells Fargo *Flts Rate Nts* 2000 $81.53

SUNDAY MARCH 22

DIVIDEND & INTEREST PAYMENTS—
Exchequer 12¼pc 1990 6⅛pc
Exchequer 13¼pc 1992 6⅝pc

APPOINTMENTS

Re-organisation at Ward White

Following the acquisition of LCP Holdings and the disposal of the *UK* retail *footwear* interests, WARD WHITE'S senior UK retail operating *management* has been re-organised to reflect the group's concentration of activities and planned expansion in specialty retail sectors through its Halfords, Zodiac Toys, and Payless DIY businesses. Mr Roger Pedder, who had responsibility for the retail group, has resigned.

Mr Christopher Wicks becomes an associate director of Ward White Group. He is managing director of Zodiac Toys and joined the group as *merchandise director of* Halfords. Mr Ted Lansdowne is also made an associate director. He is managing director of Payless DIY and joined the group following the purchase of Payless from Marley in April 1986. Mr Ian Staples is also *appointed an associate director*. He is managing director of Halfords having joined the group following the purchase of that company.

★

Mr Robert Jones has been appointed to the board of CUSSONS (INTERNATIONAL), a subsidiary of Paterson Zochonis, as marketing director.

★

PRONTOPRINT HOLDINGS has appointed Mr Derek S. Mottershead as managing director of the UK operation company, *Prontaprint Holdings*.

★

Mr Graham Grist has been *appointed financial* and commercial director by BRITISH SATELLITE BROADCASTING (BSB), the consortium which has won the IBA franchise to provide *three new national television* channels. The consortium consists of Amstrad, Anglia Television Group, Granada Group, Pearson and Virgin Group. Mr *Grist joins BSB on March 20 from* Balfour Beatty, where he is finance director.

★

SMITH NEW COURT has formed Smith New Court Investment Services, providing services exclusively for private investors, and appointed Mr David Grenier as chief executive.

★

PYE TELECOM has appointed Mr Peter Wright as *its* marketing director. He was *UK* sales manager. Pye Telecom is the UK sales organisation of Philips Radio Communication Systems.

★

Mr Barry D. Romeril has been appointed to the board of BTR. He will succeed Mr Norman *Ireland as* finance director of BTR on April 1.

★

Mr Hassen Amalou has been appointed resident representative of the AFRICAN DEVELOPMENT BANK GROUP in London in place of Mr El-Hag S. Said. He has served as financial advisor to the Algerian Ministry of Energy and Industry and then as *director of economic* affairs in the President's office before coming to London in 1981 as group assistant general manager of the European Arab Bank Group.

★

Dr Don Thomas, currently technical director at LEINER GELATINS, Treforest, takes over as managing director on April 1. He succeeds Mr Jack *Loveland*, who has been MD at Leiners since its inception in 1980 and is now leaving to concentrate on other business interests. Two years ago the company became part of the gelatin division of the Belgian chemical group Tessenderlo Chemie.

★

The RACING POST has appointed Mr Bryan Hope as a *director and chief executive*. He was a main board member of Reed Publishing, where his appointments included chairman and chief executive of the Reed Publishing group of companies and president and chief executive officer of Reed International's *worldwide exhibition interests*. Racing Post was launched last April and is owned by Sheikh Mohammed Al Maktoum.

★

THOMSON INFORMATION SERVICES has appointed Mr Sidney Jackson as chairman of Jane's Publishing Company from March 30 when Mr Michael Goldsmith will succeed him as *managing director of Jane's*. Mr Goldsmith is commercial director of Thomson Information Services.

★

MOTHERCARE UK has appointed Mr John Robersen as director *of distribution*. He was with BHS, where he was divisional controller of distribution.

★

THE COUNCIL OF MECH*ANICAL AND METAL TRADE* ASSOCIATIONS (COMMET) has elected Sir Trevor Holdsworth as *honorary president*.

★

Mr Archie McKinlay has been *appointed managing director of* BRIGGS AMASCO, part of the Tarmac Group's industrial products division. He was divisional director responsible for Ireland, *Scotland and Northern England*, and succeeds Mr Ian McPherson, who has become chief executive of the industrial products division. Mr Brian King becomes *assistant managing director* and Mr Don Cooper, financial director, at Briggs Amasco.

★

GRANT THORNTON has appointed Mr Jason Cross a partner in the London office. Mr Cross, formerly a local director of 3i *responsible* for 3i asset finance, joins as partner in charge of corporate finance *support*.

★

NFC CONTRACT DISTRIBU*TION* (formerly SPD *Contract* Distribution), the dedicated contract division of NFC Distribution Group, has appointed Mr Derek Hobbs as operations director. He was general manager of bar delivery services, the joint NFC/Whitbread, on-trade distribution operation for London and the northern home counties. Mr Geoff Mee is the new personnel director of NFC Contracts. Mr Sid Chesterman becomes regional manager.

Trade fairs and exhibitions: UK

Current
British Footwear Fair (01-739 2071) (until March 17) — NEC, Birmingham

March 17-19
International Powder and Bulk Solids Technology Exhibition—POWTECH (01-886 5741) — G-mex Centre, Manchester

March 22-24
International Cycle and Leisure Fair—CYCLEX (01-390 2211) — Olympia

March 24-26
International Food and Drink Exhibition (031-225 5486) — King's Hall, Belfast

March 24-27
Information Technology and Office Automation Exhibition and Conference—INFO (01-647 1001) — Olympia

April 3-8
British International Antiques Fair (021-780 4171) — NEC, Birmingham

April 8-9
Better Made in Britain 5: Clothing, Knitwear and Footwear; 6: Building Components and DIY (01-211 7153) — Kensington Exhibition Centre

April 14-16
International Trenchless Construction for Utilities—Conference and Exhibition (0923 778311) — Kensington Exhibition Centre

April 14-16
International Book Fair (01-940 6065) — Olympia

April 17-18
Cash and Carry Fashion Fair (01-727 1929) — Kensington Town Hall

April 24-26
Atari Computer Show (061-456 8835) — Novotel

April 26-May 4
London International Furniture Show (01-385 1200) — Earls Court

April 26-28
International Confectionery Market Exhibition — INTERCONFEX (01-661 4900) — NEC, Birmingham

April 27-30
Audio Visual Exhibition (01-688 7788) — *Wembley* Conference Centre

Overseas

Current
International *Spring* Fair (01-248 7013) (until March 24) — Leipzig

March 25-29
International Spring Trade Fair (01-977 4551) — Vienna

April 1-4
Wire Tokyo '87 (07072 75641) — Tokyo

April 3-9
International Chemical and Petrochemical Industry Exhibition (01-486 1951) — Beijing

April 9-12
International Toy Fair—SPIEL (01-977 4551) — Vienna

April 16-18
International Electro-Optics and Laser Exhibition (01-940 3777) — Tokyo

April 22-28
International Computer & Office Automation Exhibiton—KIECO (01-439 0501) — Seoul

April 25-30
International Wire and Cable Production and Wire Products Exhibition—WIRE ASIA (08833 7755) — Beijing

Business and Management Conferences

March 17-18
Insurance and Reinsurance Research Group: Airline insurance—where next? *(01-236 2175)* — The White House, NW1

March 19-20
FT Conferences: *Pensions*—The time for action (01-621 1355) — Hotel Inter-Continental, W1

March 20
Shapemakers: Designing with aluminium (01-405 0937) — Meriden Hotel, W1

March 26
Longman Seminars: EEC Deregulation in the airline industry (01-242 4111) — Hotel Inter-Continental, W1

March 31
NEDC/FT Conferences: Enterprise, success and jobs—company success (01-621 1355) — Queen Elizabeth II Conference Centre, SW1

April 1
The Institute for Fiscal Studies: The 1987 Budget (01-636 3784) — Park Court Hotel, W2

April 1
Longman Seminars: Merger accounting—financial reporting issues (01-242 4111) — Cavendish Conference Centre, W1

April 1
The Association of Corporate Treasurers: Modern financial instruments—their practical use *(01-631 1991)*. Hilton Hotel, W1

April 2-4
The Rural Life Conference—action with communities (01-636 4066) — Royal Agricultural College, Cirencester

April 6
International Business Communications: 6th annual television *planning and* buying seminar (01-236 4080) Marriott Hotel, W8

April 8-9
FT Conferences: Technology in the securities market—the next *five years (01-621 1355)* — Hotel Inter-Continental, W1

April 9-10
Institute for International Research: Selling personal financial services within the new regulatory framework (01-434 0301) — Park Lane Hotel, W1

April 9-10
Frost and Sullivan: Project management for data processing operations (01-730 3438) — Sullivan House, SW1

April 9
CBI: EFTPOS—the payment card revolution (01-379 7400) — Centre Point, WC1

April 11
The Chartered Institute of Management Accountants: Going for growth (0234 272222) — Northampton

April 22-24
Yorkshire Conference Services: *UK Budget tax* (0423 879437) — Harrogate

April 28
The Economist: The *ageing* population—the new growth market (01-839 7000) — Hilton Hotel, W1

April 29
NEDC/FT Conferences: Enterprise, success and jobs—people, the key to success (01-621 1355) — Queen Elizabeth II Conference Centre, SW1

Anyone wishing to attend any of the above events is advised to telephone the organisers to ensure that there has been no change in the details published.

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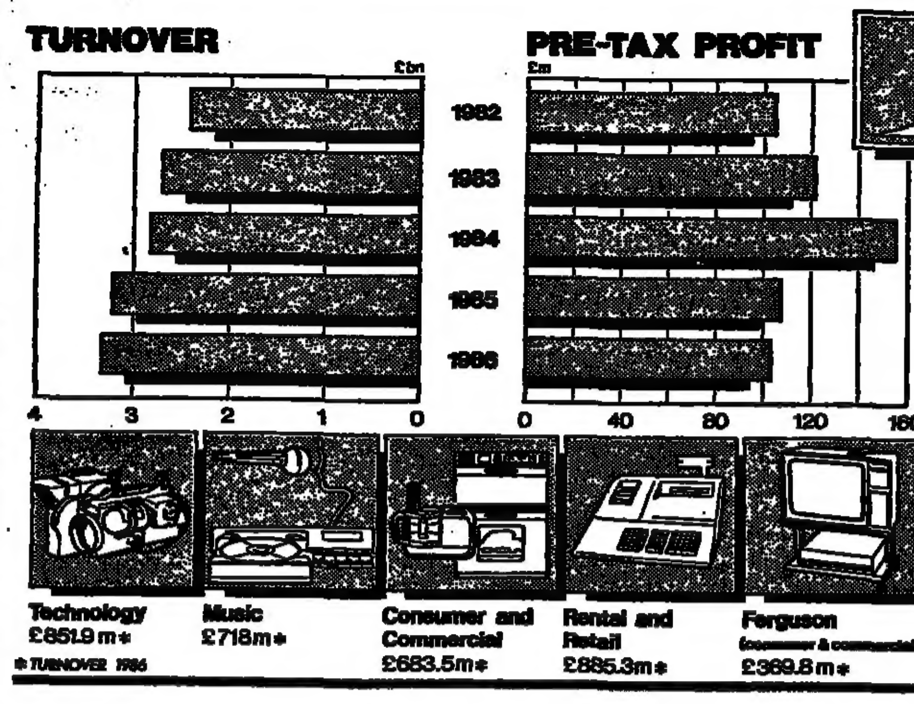
Thorn EMI

The great fightback

High tech failures and battles against appliance imports have made the the UK electricals group a test case for British industry. Terry Dodsworth and David Thomas report



Sir Graham Wilkins

THE FINANCIAL and management crisis which exploded 18 months ago at Thorn EMI, the UK electricals group, can be looked at in two ways. At one level it was a corporate disaster, an example of what happens to a company when its ambitions fatally outrun its means.

In another, more general sense, it posed a troublesome question about the ability of UK industry to compete in the high-technology, electronics-based industries: does Britain have any chance of progress in a sector where companies only succeed through a commitment to growth and long-term investment?

For the time being at least, Thorn has lost its chance of becoming a significant player in the world consumer electronics industry. Under Sir Graham Wilkins, thrust into the chairman's office after a 1985 boardroom putsch, Thorn has been marshalled into an orderly retreat from the grandiose ambitions of yesteryear, turning away from the more speculative parts of the business, and back to its traditional base in lighting, its strong television rental and retail business, and some parts of domestic appliances. These are sectors where its dominant position in the UK—it has more than 50 per cent of the lighting market, for example—seem to assure a solid future, although significant bits of the domestic appliance business may well be sold in the wake of a re-appraisal launched within the past few days.

Large chunks of the company have gone, sold in an effort to cut back to basics and raise cash. Within the next few months, the depleted headquarters staff will sever one further link with the past and abandon Thorn House, the 1950s London office block near Leicester Square designed for group founder Sir Jules Thorn at the height of his entrepreneurial powers. They will move, symbolically, to more modest West End quarters where the 80,000-strong group will be administered by a team of just 40 executives.

These changes in style clearly reflect the personality of Sir Graham, a former chairman of the pharmaceutical group Beecham, who combines the affable air of a family physician with the ruthless methods of a company doctor—hard-headed, unsentimental, averse to unnecessary risks, and keenly profits oriented.

"The fundamental problem with this company was that it was too broadly based in activities that were loss making and which we could not afford to keep," he says. "We had to prune things like cable television and direct broadcast systems which had no immediate profits potential."

Sir Graham's pruning has also lopped off the ideas which Thorn had developed in its bid to shift itself away from its traditional businesses. Under the direction of Peter Laister, abruptly pushed out of the chairmanship in the 1985 reorganisation, the group was trying to develop an integrated communications and entertainment business which would create films and videos at one end of the production stream, then make the televisions and videos on which they could be shown, and distribute the materials through its own cinemas or shops at the other extreme of the chain.

To emphasise electronics still further, Laister moved into semiconductors with the purchase of Inmos, the troubled Government-backed producer which was supposed to fit into the group as the base building block in the production of its consumer products and some of its defence electronics. The abortive bid for British Aerospace was similarly inspired by the aim of developing another high-tech wing to the company.

Sir Graham and Colin Southgate, Thorn's managing director, have a vigorous aversion to this sort of visionary approach. Screen Entertainment was sold—it had sizeable assets in its cinema chain and raised a useful £128m in cash—and they have made it clear that they are looking, at the very least, for a partner in Inmos.

The two are insistent that Thorn is a conglomerate rather than an integrated electronics-based business. "Obviously there are some similarities," says Sir Graham. "Retail is a consumer business and so is music. But there is very little commonality between these areas and defence." The emphasis, he adds, is on profits, which explains why increasing attention is being given to the rental and retail subsidiary, and a more sceptical eye cast over manufacturing.

"I do not want to give the impression that we don't want to manufacture anything," says Sir Graham, "but we don't produce something unless there is a profit to be made out of it."

There are still some people in the UK electronics industry who believe that this managerial strategy is an unnecessary admission of failure by Thorn, which, they say, had achieved sufficient size and a broad enough base to carve out a position for itself in the world market for high technology goods. They point to the example of the Japanese consumer electronic companies, which have moved to leadership in the commodity semiconductor industry and the audio/television sector by vertical integration across a broad spread of businesses.

The trouble with this argument is that Thorn never managed to develop a culture and a sense of purpose which would have allowed it to organise its growth into an international electronics group in a coherent way.

Some analysts put this down to a failure to make a smooth transition from the individualistic, proprietorial style of management of Sir Jules Thorn to that of a professionally organised group; others contend that the company was simply stuck with a typically British inability to plan for the long term; and, in any case, the industrial and financial underpinning for a diversification programme had begun to disappear with a decline in the group's basic businesses in the early 1980s.

This erosion can best be illustrated by the performance of the group over the last few years. Two-thirds of the trading profits are coming from its High Street outlets, its large chain of rental shops (DER, Radio Rentals and Multi-broadcast) and to a lesser extent the Rumbelows appliance stores, a total of 1,600 outlets.

The domestic appliance products (Tricity, Parkinson Cowan, Bendix, Moffat) make no more than 3 per cent on sales at a trading level, and lighting is underperforming group targets, despite a strong international presence. The defence and technology business (embracing software, thermal imaging, fuses and radar) also has several weak sectors, and both Inmos and the key North American division of EMI Music have been in loss; Inmos has cost the company around £300m in acquisition expenditure, losses and loans—roughly half the net worth of the entire Thorn group.

Part of the problem is insufficient investment over the years. The heart of the original Thorn empire, its lighting and domestic appliance businesses, seemed to lose its way in the late 1970s, during the years of high inflation and growing foreign competition. Just when these activities needed to regroup and fight back, cash began to be siphoned off into diversifications such as the EMI takeover in 1979 (Thorn was carrying virtually no debt at that time) leaving them to soldier on as best they could.

The result is a manufacturing business which is not sufficiently international—only the Kenwood small appliances and the lighting divisions are strong overseas — and a number of factories which today need new fabric, new fittings and new products as well.

One senior executive recalls how the refrigerator plant management tried deliberately to organise a factory visit from head office on a wet day so the headquarters staff could see the rain coming through the roof. The refrigerators are reckoned to be so out of date that they have twice as many parts as competitors' products, with all that means in extra weight, more complex maintenance, and higher production costs.

The new guard also complains that Thorn's management systems were too weak to cope with the stress of rapid expansion. Fuzzy lines of accountability, unclear targets, inadequate information systems, poor marketing and too many layers of bureaucracy are just some of the charges laid against the old Thorn.

A young manager brought in from outside to a senior position in Thorn's high street operations found that market research was treated as an unnecessary luxury. In Rumbelows, until recently, stock control was manual. "We used to have unbelievable meetings in the screen entertainment division," recalls an executive who has since left. "Each bit of Thorn which was used to being independent and was asked to co-operate would fight like hell against the others."

Faced with these shortcomings, it is hardly surprising that the new top management has decided to concentrate initially on establishing a more easily controllable enterprise. As head office has been trimmed back, the divisions have been given more operational responsibility, including management of their own debt, and management has been beefed up with new recruits from outside. Of the 45 top positions in Thorn, 30 have been filled by new people in the past 18 months.

In head office, the finance department has set about reorganising Thorn's international operations so that—for the first time—overseas losses can be set off against overseas profits, and surplus cash on deposit with foreign subsidiaries repatriated to reduce high interest borrowings in the UK.

These adjustments are beginning to bear some fruit in improved operating performance — first half profits to September rose to £41.5m pre-tax against £11.4m in the same period of 1985. But the big numbers in the new management era have been in the redeployment of assets, as Thorn has pushed through a series of disposals. Over the past two years, the group has *realised about £230m from asset* sales — funds which have been essential in shoring up investment, keeping Inmos afloat, and paying down debt. Borrowings have been reduced from well over 60 per cent of shareholders' funds to a little over 30 per cent.

With the bulk of the disposal programme now coming to an end, however, Thorn is faced with a different challenge—the problem of setting expenditure priorities.

The problem is that as the cash stream from disposals runs down, Thorn will have to find funds from operations to inject back into the business — much of which needs the new investment in order to generate the profits to plough back.

This Catch 22 situation looks particularly nightmarish in a division like Inmos, where the cost of disposal could be high, but the long-term price of staying in the business is substantial new investment. It applies equally, however, to some of the longer-established and previously successful parts of the company.

The recently-announced re-appraisal of its domestic appliance business, for example, places a clear question mark over the future of the refrigeration activities: Thorn concedes that it would need to invest around £15m to bring this division up to scratch—money on which it could receive a faster return in rental or retail.

Even at the Ferguson television plant, where Thorn has been applauded for a £28m capital infusion which has allowed it to gear up the plant to 1m units a year, margins are wafer-thin. "Ferguson will finance its own capital, but I am not so sure that it will be a cash generator," says Sir Graham. "A five per cent trading margin on sales would be a pretty good performance."

*The problems are not insuper*able because none of the businesses is haemorrhaging as were Inmos and Screen Entertainment a couple of years ago. Morale, says Sir Graham, is high, and the group is "comfortable" with its present spread — although he makes it clear that the group is always open to offers for some of its activities. He has set what he considers to be an attainable 7 per cent return on sales for the group (it is currently around 4.5 per cent) and is planning for the next stage of recovery with the help of a long-term market study which is just being completed.

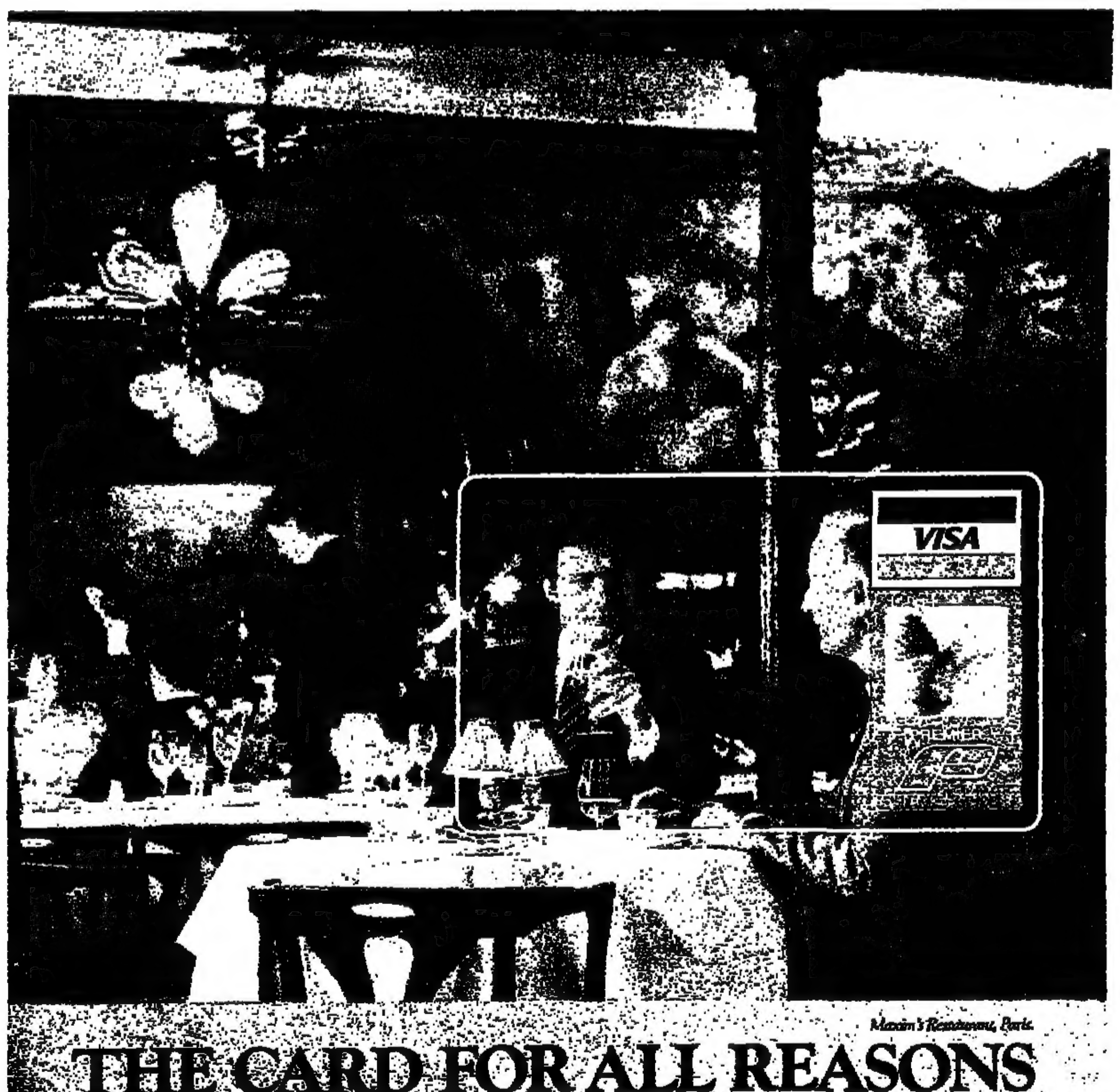
Achieving the 7 per cent objective would have an electrifying impact on profits, pushing them up by 50 per cent to just over £230m at a trading level on the basis of last year's £3.3bn turnover. It would probably demand a turnround at Inmos, which is expected to be out of loss, following cost cutting and volume increases, at the end of this quarter, continuing growth in the electronics division.

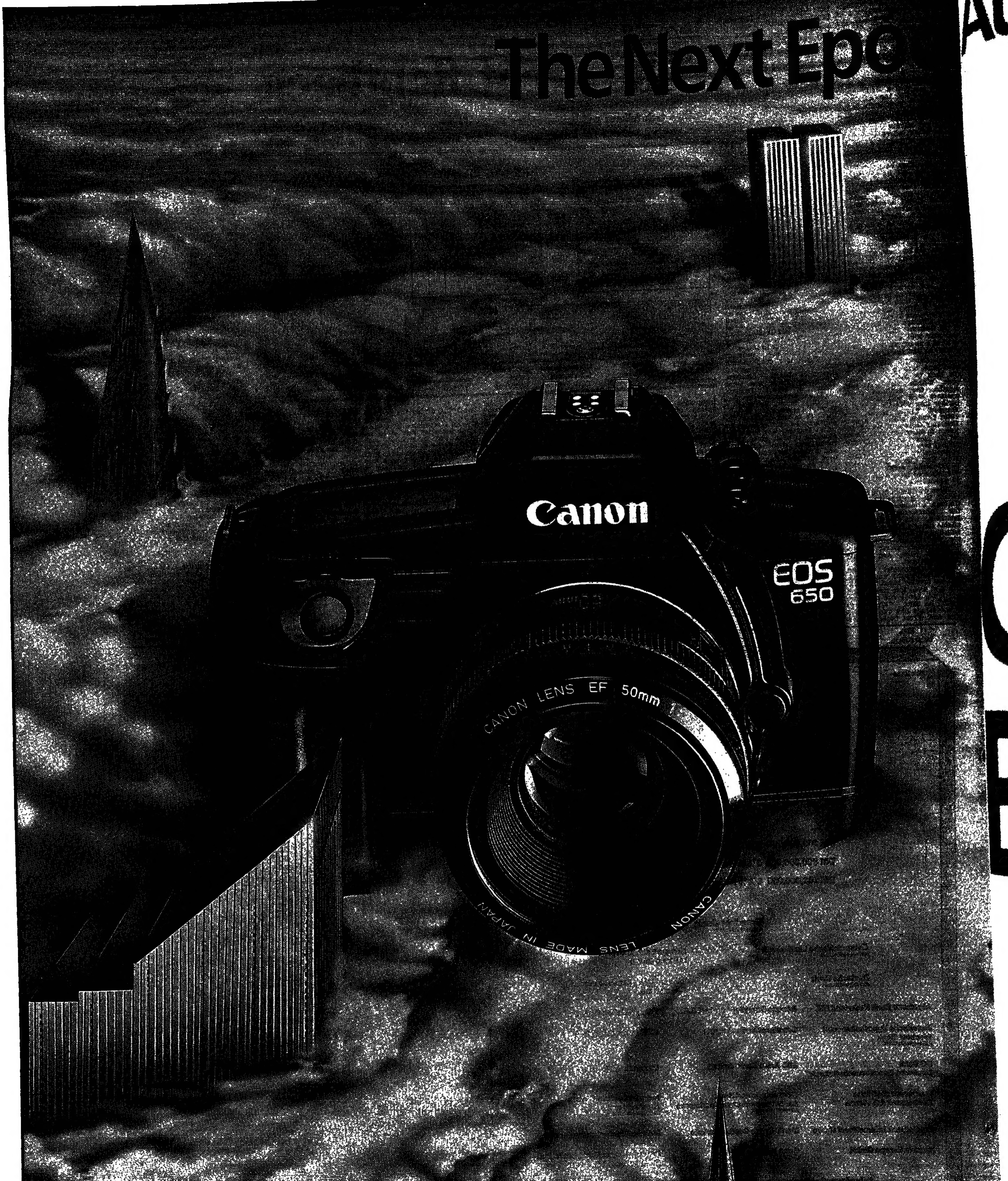
Thorn is currently resisting the suggestion, frequently heard in the City, that it should sell off music, one of its few truly international businesses. It believes that a mere 1.5 percentage point increase in its present North American market share of 9.5 per cent would take it into profits there. New artists are being hired, management being strengthened, and a compact disc plant being brought on stream to try and resolve the problems.

But recovery will clearly take careful management, and in the meantime, it will be surprising if Thorn does not lean more towards its service businesses, the rental and retail outlets, where the company has shown that it can make better returns, much faster than over large swathes of its manufacturing activity.

This bias to the service sector may be an unpalatable message for those who believe that Britain's manufacturing base is of paramount importance. But, as Thorn has shown, it is equally true that success in electronics manufacturing demands great experience, an international outlook, and a highly disciplined management.

Two further articles on Thorn EMI will appear on this page on Wednesday.





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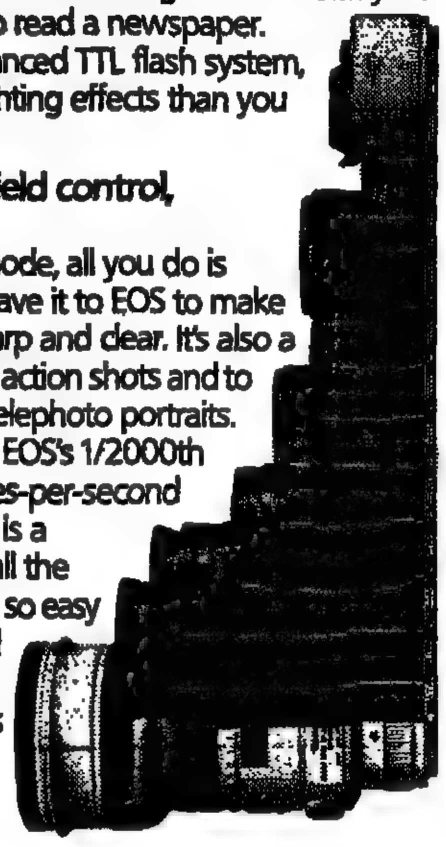

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BUILDING CONTRACTS

Roadworks, computer centre and marina for Tarmac

Contracts worth around £80m have been won by TARMAC CONSTRUCTION. The largest award is a contract worth £22.5m from the Department of Transport, for a new road linking the North Devon towns of Barnstaple and Tiverton. The company has also won a £10m contract from Barclays Bank for work on a computer centre at Barnwood, in Gloucester and in Swanage, Dorset, Tarmac has been chosen to build an £11m marina development.

This contract for Durrant Developments (SYH) involves demolishing an hotel and building 100 luxury apartments, commercial facilities and a yacht haven for about 250 boats.

Other projects include building a seven-storey office block in St Vincent Street, Glasgow, for Alliance Insurance Company (£3.4m); refurbishing 168 flats at Salford, Greater Manchester, for Regalian Estates (£2.1m); and civil engineering and building work at Redcar, Cleveland, for BSC General Steels (£983,000).

Contracts have also been awarded to the *contract housing* division, which specialises in building and modernising public sector housing. They include two for Manchester City Council at Burnage (£998,000) and Blackley (£352,000); Coleman Road, Leicester, for Leicester City Council (£853,000); Portico, St Helen's, for St Helen's Metropolitan Council (£282,000); and St George's Road, Glasgow, for Queen's Cross Housing Association (£270,000).

UK embassy building in Vienna

A £5m contract for the construction of a new British Embassy building and renovation of the ambassador's residence in Vienna, has been awarded to a joint venture of TAYLOR WOODROW INTERNATIONAL and *ED AST & CO, of Vienna*. The order has been placed by the Foreign and Commonwealth Office and work, already underway, is due for completion in July 1988.

The new Embassy building is designed to match the facades of surrounding traditional Viennese buildings. It will extend over five floors to include a basement and attic and will have a reinforced concrete frame on reinforced concrete foundations. The cladding will be a mixture of stonework and plasterwork. Alterations to the ambassador's residence includes extending the basement and ground floor to accommodate new consular offices.

BRITISH RAIL PROJECTS

Rebuilding Reading Station . . .

TURRIFF CONSTRUCTION has won a contract for rebuilding Reading Station worth over £7m. The new station is due to be completed by August 1988.

Using mainly glass and steel, Turriff has to complete the main building work without interrupting the train service. Reading is second only to Paddington as the busiest and top revenue earning station in the Western Region of British Rail. Each day about 30,000 passengers pass through the station with up to 4,000 changing trains.

The present building will remain alongside and be refurbished and incorporated into the new terminal, with a waiting lounge, coffee bar on the ground floor and railway offices above.

The Victorian building is now too small because of the town's growing links with Heathrow and Gatwick.

The forecourt will be redesigned to improve traffic flow and include a pedestrian area with access to Heathrow Railair coaches, improved facilities for buses, taxis and parking for the disabled.

The new station will include a large travel shop with 10 windows for ticket sales, bureau de change, telephone inquiry bureau, Railair lounge, Travellers Fare buffets, waiting areas, toilets and facilities for leaving heavy luggage. The concourse will be linked to platforms by a bridge leading to a 1,600-space multi-storey car park.

. . . and improving Victoria

A £1.5m management contract, for the advance works of Phase 2 of the development of London's main line Victoria Station, has been awarded to SIR ROBERT McALPINE CONTRACTORS by Greycoat London Estates prior to the commencement of the main scheme. The contract includes preparatory work for two new platforms, Nos 16 and 17 for British Rail, conversion of redundant sidings into staff car parking and a structural steel ramp linking this to Ebury Bridge. Work is due for completion in December.

The company has been awarded a contract worth over £550,000 by Cardiff Business Technology Centre for the construction of a small industrial development in the central area of Cardiff, close to two of the city's universities. The centre will comprise a two-storey and a single-storey block. The steel frame building with brick cladding, will provide up to 2,000 sq metres of floor space within 25 self-contained industrial starter units. Work is due for completion in December. In Bridgend, Glamorgan, extensive refurbishment, mainly to the cladding, will be carried out on a four-storey office block, for Mid Glamorgan City Council, under a *management* contract worth almost £440,000.

Community facilities

COSTAIN CONSTRUCTION has been awarded a £1.9m design and build contract by Birmingham City Council to provide additional sports and community facilities at three schools in the area, Colmers Farm and Shenley Court in Northfield, and at Marsh Hill, Erdington. Each new building links into existing facilities at the schools and will provide flexible, self-contained accommodation for a range of sporting and community activities. In terms of overall size, the schemes at Colmers Farm and Shenley Court will each provide four badminton courts and the Marsh Hill building will house eight courts. The buildings will be constructed as conventional structural steel frames on pad foundations, finished in a profiled metal cladding. Costain will be responsible for all internal finishes and the provision of changing room and toilet facilities. The work is scheduled for completion in December.

Hotel at Stevenage

SHEPHERD has secured a £2.7m contract to design and build an hotel at Stevenage. It will be operated as a Novotel, with three-storeys containing 103 bedrooms. It will be on the edge of the Knebworth estate, close to the A1(M) trunk road on the south-west outskirts of Stevenage. The client is Oak Hotels.

Novotel Stevenage will be brick-clad with clay pantile pitched roofs. It will feature a restaurant, bar and conference facilities together with an open-air swimming pool. Work starts in April for completion in 55 weeks.

Public works for Wimpey in Wales

WIMPEY CONSTRUCTION UK has been awarded contracts in Wales worth more than £8m. The Welsh Health Common Services Authority has placed a £5.5m contract for wards, and an accident unit with operating theatres at the Royal Gwent Hospital, Newport, Gwent. The building comprises an eight-storey ward-block of 1,000 sq metre per floor, and a single-storey accident unit of 500 sq metres at first floor level. The building will be of reinforced concrete frame on raft foundations, with brick walls, connecting the block to the existing development. Included in the contract, due for completion in February 1989, will be mechanical and electrical services.

Under a sub-contract package, valued at £1.14m, for Norwest Holst Management Contracting, Wimpey will carry out the brick and block work at New County Hall, Cardiff, to be occupied by the county of South Glamorgan. The contract is for a four-storey, part five-storey building, with a central roof garden at first-floor level. The work involves general brick/block partitions, brick cladding to elevations with 14-metre-high brick piers and buttresses. It is due for completion in August.

Fitting out 10-screen cinema at Gateshead

CROWN HOUSE ENGINEERING has won orders totalling £36.25m. These include an order worth £5.8m to complete work on Phase III of the Metro Centre development at Gateshead which includes fitting out a 10-screen cinema.

An order for work out at Llanelli Hospital totals £5m. Work at the Cardiff Docklands Development and Jaguar Cars at Coventry are worth £2.3m and £2.2m respectively and a contract at the Glaxo Barnard Castle quality assurance laboratory is valued at £2.7m.

Crown House Engineering has also secured orders each worth over £1m at Land Securities (Knollys House), London; The Royal United Hospital, Bath; John Player (Imperial Group), Nottingham; Norsk-Hydro Chemicals, Humberside; Milton Keynes Food Centre; Moorfield Eye Hospital; Pirelli, Aberdare, and a new hotel for JT Developments at Maidstone.

Housing at Rotherhithe

A £4m contract has been awarded to MOWLEM MANAGEMENT by Regalian Properties for the conversion and refurbishment of two blocks of 1930s flats and building two terraces of houses at Rotherhithe in south east London. Known as Silver Walk, the development involves refurbishment of a block comprising 28 flats and maisonettes, conversion of a second block of flats into 20 houses, and construction of a basement car park, together with 18 two- and three-storey houses above. Work has started with a phased handover due to start in the latter part of this year and final completion scheduled for early 1988.

Renovating Nottingham's sewers

NORWEST HOLST PIPEWORK SERVICES is set to commence £2m worth of renovation work to sewers and culverts in Nottingham — some sections date back more than 100 years. The two-year contract involves work to two, roughly parallel, five km lengths of brick sewers, built in 1880 and 1932 between Roughill Woods and Stoke Bardolph. As well as cleaning, repointing and pressure grouting most of the tunnel length, a section of culvert roof reconstruction and a 700-metre length of GRP pipe are also needed. Generally, both sewers are circular, the more modern having the large diameter of 1.8 metres compared with 1.6 metres. Repointing and pressure grouting will be used on the upstream 4 km of each sewer. On the lower culvert section the existing concrete roof also has to be replaced. Construction of a low-flow channel within the more modern sewer is aimed at improving the carrying capacity.

Labour steps up effort to raise party morale

BY MICHAEL CASSELL, POLITICAL CORRESPONDENT

THE LABOUR Party leadership yesterday renewed its calls for party unity and turned its attack on the tax-cutting measures which it expects will form the basis for tomorrow's budget.

With ministerial optimism riding high over the Opposition's internal problems and the prospect of a vote-winning package from the Chancellor of the Exchequer, Labour is stepping up efforts to boost its own morale and to mount a fresh offensive against the government's economic strategy.

The task will not have been made easier by the latest Mori opinion poll carried out for The Sunday Times, which gives the Tories a 9 per cent lead over Labour. It is the Government's largest lead for nearly 2½ years.

The poll puts the Tories on 41 per cent, with Labour on 32 per cent and the Alliance on 25 per cent. The 4 per cent increase in the Alliance rating, which is almost totally at the expense of Labour, supports recent claims by the Alliance leadership that it is capable of challenging for second place in terms of the popular vote.

The Mori findings give Labour its lowest share of the vote since its 28 per cent rating at the time of the 1983 general election and would mean an overall Tory majority of 48 seats in the next parliament.

Ministers are particularly pleased at evidence that the upsurge in Alliance support, confirmed by the recent by-election results at Greenwich and Truro, appears to be hitting Labour rather the Government. A key factor in any decision to go for an early election would be the potential damage a continuing Alliance revival might eventually inflict on the Tories.

A late June election is still possible, although Mrs Margaret Thatcher, Prime Minister, will want to see how the polls move in the next few weeks, after the impact of the budget has been calculated, and following her visit to Moscow.

In his latest, down-key assessment of Labour's position, Mr Bryan Gould, the party's campaigns co-ordinator, said yesterday that he believed the Tory vote was "brittle enough to give us a chance of overtaking them during the election campaign."

But Mr Gould criticised the "quite unnecessary and distracting sideshows" within the Labour party which had detracted from the real issues and said he expected greater self-discipline and judgement than had recently been shown.

His comments, which reflected weekend calls for unity from Mr Neil Kinnock, the Labour leader, and Mr Ray Hattersley, his deputy, were also echoed yesterday by Dr John Cunningham, the shadow environment spokesman.

Dr Cunningham added: "If through self-discipline we can bring the debate back onto the real issues of employment, industry, housing, health and education, then we know that Labour's policies are more than a match for those of the Tories."

Mr Tony Blair, a Labour treasury spokesman, yesterday attacked what he called the impending "Bribes of March" which involved a one-off budget windfall of £5bn. He said the hand-out would come from a mixture of "extra taxes, creative accounting and consumer spending on imports" and claimed it was either unsustainable in the long-terms or the product of factors which were damaging to the economy.

Mr John Smith, Labour's trade and industry spokesman, claimed yesterday that the British economy was basically unhealthy and that any money available for distribution by the Chancellor of the Exchequer, should not go on tax cuts but on reducing unemployment and on investment in industry.

Granada may be Goldcrest contender

By Raymond Snoddy

GRANADA, the television and leisure group, is emerging as a possible strong contender for Goldcrest, the struggling British independent film company which has been involved with Oscar-winning films such as Gandhi and Chariots of Fire.

Mr David Plowright, chairman of Granada Television, is believed to be keen to take over the company. Goldcrest began to run into financial troubles last year when one of its most expensive productions, Revolution, turned out to be a box office disaster.

Granada's aim would be to get Goldcrest back into production again making low budget British films for both the cinema, UK television and international markets. Granada is examining the financial state of Goldcrest, but a formal statement of interest is expected from Granada later this week.

It has been looking for a way into film production for some years and has also had talks on the future of Goldcrest with the Virgin group.

Mr Donald Cruickshank, the Virgin chief executive, is a former deputy chief executive of Goldcrest and both Granada and Virgin are partners in British Satellite Broadcasting (BSB) holders of Britain's DBS franchise.

Three rival bids are already on the table for Goldcrest whose main shareholders include Pearson, the diversified group which owns the Financial Times, Electra Investment Trust, the Coal Board pension fund and Noble Grossart, the Scottish investment house.

Goldcrest's four main shareholders have been supporting a takeover proposal from Mr Earle Mack, an American property developer who would take an 85 per cent stake in the company in return for an injection of £5.7m mostly in debt. The position has however been opened up by further bids from Hemdale, an Anglo-American film production company and Masterman, a group owned by Brent Walker and Ensign Trust.

There has been opposition to plans to sell Goldcrest to Mr Mack, and Granada's interest might fit original aims of Goldcrest to be a leading British independent film production company much better.

Job evaluation called into question by government study

BY PHILIP BASSETT, LABOUR EDITOR

JOB EVALUATION – grading jobs to help create pay structures – needs to adapt to rapid organisational, technical and legislative changes if it is to survive, according to a study paper prepared for the Government's Work Research Unit.

The conclusions lend significant theoretical support to criticisms of job evaluation expressed recently by Mr Kenneth Clarke, Paymaster General, in his call for extensive change in Britain's system of pay bargaining.

Mr Clarke, senior Commons employment minister, was widely attacked by union leaders over his statement, especially over job evaluation, the function of which they and many employers claimed he had misunderstood. Job evaluation (JE) schemes are widely used by employers as an aid to pay-setting.

But the paper, by Mr David Grayson of the research unit – part of the conciliation service Acas – adds weight to his charges.

It says that JE schemes in many organisations are now under pressure because of the impact of change: the need to respond to stronger business competition, the equal pay for work of equal value legislation, increased labour flexibility and widespread increase in use of new technology.

The paper says that "the fundamental problem is that most job evaluation schemes pre-date these changes. Thus the original assumptions on which the schemes were based have become less valid."

The result, says the paper, is schemes "which are seen to be too slow, inflexible, unhelpful in implementing change, and more geared to preserving the status quo."

Noting a number of indications that JE schemes are becoming less appropriate, the document says that the pressures will require most organisations to revise their approaches.

However, since this is both costly and time consuming, it says that "the likelihood is that many organisations will continue to use outdated schemes. Such a policy will inevitably begin to affect adversely attitudes towards job evaluation and also its acceptability in principle."

UK NEWS

'Favoured terms' on offer to computer staff

BY HELEN HAGUE

COMPANIES and local authorities are framing preferential pay and benefits packages for computer development staff in an attempt to stem recruitment problems, according to a study published today.

Evidence of this increasing trend is detailed in a survey of 27 organisations outside the computer industry, collated by Incomes Data Services, the independent pay research body.

Big Bang, the deregulation of the City of London last year, has exacerbated intense competition for skilled computer staff in London and the South East of England.

Tactics aimed at retaining employees are reported to include:

- Major changes to salary and grading structures;
- Creating more "room for manoeuvre" by raising maximum points of salary scales;
- Moving from more rigid grading structures to individual "market-related" salary bands for each job title;
- Introducing performance-related salary progression or merit payments for the first time;
- Reviewing computer staff salaries more than once a year;
- Accelerated promotion;
- Paying special market additions for computer staff or introducing skill or proficency allowances;
- Improving the benefits package, particularly the eligibility criteria for company cars.

Employers in the private sector have found it easier to prepare pay and benefits package for computer staff than those in the public sector, according to the study.

It found that the introduction of new salary progression systems for such staff in the public sector had often met with trade union resistance, because of concern over the possible fragmentation of national pay structures.

However, some public employers are taking initiatives to pay higher rewards to staff in short supply.

The Civil Aviation Authority moved to performance-related progression for computer staff two years ago. Lambeth council in London pays "scarcity allowances" and Kingston, Sutton, Westminster, Kent and Surrey councils now offer cars to some data processing staff, Woking Borough Council has introduced merit awards for its computer staff.

David Lascelles assesses the first casualty of City deregulation

Midland licks Big Bang wounds

SOMEONE HAD to be first. But it was doubly unfortunate for Midland Bank that it became the first casualty of the Big Bang on Friday when losses forced it to shut down its equity market-making business.

For one thing, Midland is still trying to shake off its image as the UK's most trouble-prone clearing (retail) bank. The arrival of Sir Kit McMahon as chief executive last autumn seemed to mark the start of a new era.

For another, it was only three weeks ago that Midland launched a huge advertising campaign for Midland Montagu, the new investment banking arm which it formed to capitalise on the changes from Big Bang.

The claim made in the accompanying brochure that Midland Montagu "is as well equipped to serve its customers as any comparable organisation in Europe" is already no longer true.

Midland's failing appears to have been one of strategy. Unlike its rivals it did not buy a jobbing firm to give it a ready-made ability to deal in equity stocks. Instead, it believed it could develop such an operation itself and feed it with business from W. Greenwell, the stockbroking firm it bought last year.

Under the Big Bang rules brokers must find their clients the best price in the market and even pass the business to another house if the in-house market-makers are quoting less attractive prices. So Midland Montagu's market-makers were obliged to adopt a "never knowingly undersold" strategy, to enable Greenwell to pass them the business. They were, therefore, always dealing at the very finest margins.

Another problem noted by rival dealers was the lack of co-ordination between Greenwell's ability to generate business, and the market-makers' capacity to handle it. It is believed for instance, that Greenwell recently obtained substantial orders for ICI shares, only to find the market-makers short of the stock and needing to go out and buy it at a loss.

Mr Ernst Brutsche, a chief executive of Midland Montagu said the operation had made £6m of trading losses and that the decision to shut it down would entail write-offs of about £10m. Unlike the other clearing banks though, Midland has not given profit and loss details for its investment banking business which includes its Treasury operation and Samuel Montagu its merchant bank.

In its 1986 results, it said only that investment banking had made a total pretax profit of £65m. But it is now known that this conceals a loss of £12m by Greenwell, which is offset by a profit of £37m by Samuel Montagu which had a record year, and profits of £40m, from the Treasury side. Greenwell's losses were accounted for by the heavy start up costs of Big Bang, plus the equity operations which are now being discontinued.

Compared to the other clearing banks the amount of red ink at Midland Montagu was not enormous and it was in the unusual position of making money on gilts but losing it on equities, the reverse of many other houses' results.

It has been suggested by people in Midland Montagu that Mr Brutsche, who is a Treasury rather than a securities man, was willing to make the closure decision because it was dragging down the performance of his group as a whole. Sir Kit McMahon, a former central banker, may also have preferred to err on the side of prudence.

Midland's retreat, is an indication of the ferocity of competition in the equity market since Big Bang and it may mark the start of the much predicted shakeout.

A recent study by the Stock Exchange shows that more than 12 houses are now making active markets in the 80 leading stocks. In the most popular stocks, the number rises to more than to 18. Most of this business went through two or three jobbers before Big Bang.

The study shows the average "touch" or spread between best bid and offer prices for top stocks, has fallen from 0.7 per cent for 1,000 shares just after Big Bang to 0.5 per cent at the end of January.

Midland's departure will, of course, relieve some of the pressure. But it was not among the biggest players, so the impact on the rest of the market will be marginal. The City rumour mill has been looking for further casualties among other houses which did not buy a jobbing firm and might be suffering the same problems.

Mr Glen Moreno, executive vice president of Citicorp which owns Scrimgeour Vickers, said "the markets are very difficult but we are making money. We are now trying to expand."

Even some of the big integrated investment banks have had their problems. NatWest Investment Bank, the subsidiary of NatWest, has had trouble pulling together its complex dealing operation. But it now claims to be making money in equities. BZW the Barclays subsidiary has just trimmed 12 television stocks from its coverage, but its range of 1,600 stocks remains the largest (Midland was only dealing in 400 stocks).

Although Midland's decision sent shocks through the market on Friday, some observers saw sense in it. Midland Montagu will now concentrate on agency broking and equity research in the two areas where Greenwell is strongest.

The promotion of Mr Keith Brown, the head of research, to the position of joint managing director brings to the fore one of the City's leading analysts. Meanwhile, Greenwell's gilts business, another of its strengths, continues as before and is making money.

But whether Midland Montagu will find life any easier as an agency broker is a moot point.

Warning of political controversy for courts over City's powers

BY RAYMOND HUGHES, LAW COURTS CORRESPONDENT

THE "BIG BANG" and the proliferation of new powers given by the 1986 Financial Services Act could lead to the courts becoming involved in areas of acute political controversy, a leading judge has said.

Lord Justice Woolf, a judge of the Court of Appeal, also suggested that there is a need for "someone outside the political arena" to represent the public interest in cases of abuse of power arising out of the Act.

The judge made his remarks when he gave the 1987 Denning Lecture on the subject of "Judical Review in the commercial area." Judicial review is the legal process by which decisions of government ministers or departments and of other public bodies can be challenged in the courts.

Lord Justice Woolf said that, although the Big Bang had been meant to herald a new era of freedom, that freedom had been accompanied by the new and bigger powers of regulation given by the Financial Services Act to the Secretary of State for Trade and Industry, self-regulating organisations (SROs) and others. "Recent events have made it clear that those powers are necessary," he said.

The Act gave a right of appeal, ultimately to the High Court, by any person or body directly affected by the actions of the Secretary of State. The High Court was also given a supervisory role in relation to certain other activities of the Secretary of State.

There was, however, Lord Justice Woolf suggested, still an immense area where judicial review was going to be the only means of redress against abuse of power.

That was particularly so because the Act specifically provided that neither an SRO, its staff, nor members of its governing body were to be liable for damages for anything they did or did not do unless they acted in bad faith.

For example, in general the jurisdiction of the Financial Services Tribunal, to which complaints could be referred, only arose where the Secretary of State and other bodies took action and the person or body against whom the action was taken was aggrieved.

"Where these distinguished bodies fail to take action there is no right to enlist the help of the tribunal and then the High Court provides the sole possibility of help.

"There are, therefore, many areas where the protection of the public will depend upon the manner in which the Secretary of State exercises his supervisory role."

"This means that many decisions of great importance to the commercial, and in particular the financial, sector of the community will tend to be drawn to a greater or lesser degree into the political arena, as political capital is sought to be made of the Secretary of State's decision or indecision.

"It also means that in exercising their powers of judicial review the courts could become involved, as they did in the disputes between local and central government, in areas of acute political controversy."

Lord Justice Woolf said that the Secretary of State performed his many duties under the Financial Services Act as the political head of his department and a member of the Government.

Menswear sales jump

BY CHRISTOPHER PARKES

THE BRITISH market for menswear grew 9 per cent in real terms last year to about £4.5bn – but the boom is likely to be relatively short-lived.

A recent study claims that despite increasing competition and sharper marketing, the impending drop in the number of heavy-spending young male shoppers indicates that major real growth is unlikely in the medium term.

The report, from Gordon Simmons Research of London, says the total male adult population is static. Real growth will be inhibited as the number of 15-24-year-old falls from 4.7m to 3.7m by the end of the 1990s.

"Retailers will have to take advantage of growing fashion-consciousness among men," it suggests. "They will also have to consider the opportunities presented by the rising number of older men."

Company Notices

C. ITOH AND CO. LTD. OSAKA, JAPAN

14th March, 1987

NOTICE OF THE RESOLUTION OF THE BOARD OF DIRECTORS CONCERNING THE ISSUANCE OF NEW SHARES

To: Shareholders

Notice is hereby given that with respect to the issuance of new shares of C. Itoh and Co. Ltd., pursuant to the resolution of the Board of Directors adopted on February 2, 1987, it has been resolved at the meeting of the Board of Directors of C. Itoh and Co. Ltd., held on March 11, 1987, that the terms of the Public Offering of such New Share Issue shall be as follows:—

1. Number of Shares to be issued:	80,000,000 shares of Non-Bearer par value Common Stock.
2. Amount of Issue Price:	Yen 765 per share.
3. Amount of the portion of the Issue Price which shall not be accounted for as the stated Capital:	Yen 382 per share.
4. Date of Subscription:	March 31, 1987 (Tuesday)
5. Offering Method:	Public Offering through underwriting by: The Nikko Securities Co. Ltd. The Daiwa Securities Co. Ltd. The Nomura Securities Co. Ltd. Yamaichi Securities Co. Ltd. Nippon Kangyo Securities Co. Ltd. New Japan Securities Co. Ltd. Dai-Ichi Securities Co. Ltd. Cosmo Securities Co. Ltd. Purchasing the entire shares to be issued.
6. Date of Commencement of Dividend Accrual Period for the new shares:	April 1, 1987.

NOTICE TO HOLDERS OF EUROPEAN DEPOSITARY RECEIPTS (EDRs) IN

RYOBI LIMITED

EDR Holders are informed that Ryobi Limited has paid a dividend to holders of record 30th November, 1986 of Yen 3.75 per Yen 50 Share of Common Stock and the Depositary has converted the net amount, after deduction of Japanese withholding taxes, into United States Dollars.

EDR Holders may now present Coupon No. 12 for payment.

Payment of the dividend with a 15% withholding tax is subject to receipt by the Depositary or the Agent of a valid Affidavit of Residence in a country having a Tax Treaty or Agreement with Japan giving the benefit of the reduced withholding rate. Countries currently having such arrangements are as follows:

A.R. of Egypt	France	Rep. of Korea
Australia	Hungary	Romania
Belgium	Indonesia	Singapore
Brazil	Ireland	Spain
Canada	Italy	Sweden
Czechoslovakia	Malaysia	Switzerland
Denmark	The Netherlands	United Kingdom
F.R. of Germany	New Zealand	US of America
Finland	Norway	Zambia
	Poland	

Failing receipt of a valid Affidavit, Japanese withholding Tax will be deducted at the rate of 20% on the Gross Dividend payable. The full rate 20% will also be applied to any dividends unclaimed after 30th June, 1987.

Amounts payable per EDR of 10,000 shares against Coupon No. 12.

Gross Dividend	Dividend Less 15% Withholding Tax	Dividend Less 20% Withholding Tax
US$244.22	US$207.58	US$195.37

Depositary: Bank of Tokyo International Limited London

Agent: The Bank of Tokyo (Luxembourg) S.A. Luxembourg

16th March, 1987

Legal Notice

IN THE MATTER OF
EASTCON
(MIDDLE EAST SERVICES) LTD.
AND IN THE MATTER OF
THE CYPRUS COMPANIES LAW
CAP 113

NOTICE IS HEREBY GIVEN that the Creditors of the above-named Company, which is being voluntarily wound up, are required on or before the 18th day of April 1987 to send in their full names, their addresses and descriptions, full particulars of their debts or claims and the names and addresses of their Solicitors (if any), to the undersigned Mr Antony Hajirousos, FCCA, of Julia House, 3 Them. Dervis Street, P.O. Box 1812, Nicosia, Cyprus, the liquidator of the said Company, and if so required by notice in writing from the said Liquidator, are, personally or by their Solicitors, to come in and prove their debts or in default thereof they will be excluded from the benefit of any distribution made before such debts are proved.

Dated this 16th day of March 1987.
A. HAJIROUSOS, FCCA,
Liquidator.

No. 0058 of 1987
IN THE HIGH COURT OF JUSTICE
CHANCERY DIVISION
IN THE MATTER OF
BULLERS PLC
AND IN THE MATTER OF
THE COMPANIES ACT 1985

NOTICE IS HEREBY GIVEN that the Order of the High Court of Justice (Chancery Division) dated 9th February 1987 confirming the cancellation of £342,000 of the amount standing to the credit of the share premium account of the above-named Company was registered by the Registrar of Companies on 3rd March 1987.

Dated this 16th day of March 1987.
NORTON ROSE BOTTERELL & ROCHE,
Kempson House,
Camomile Street,
London EC3A 7AN.
Solicitors for the above-named Company.

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UK NEWS

Penalty duties threat fails to deter Samsung

BY CHRISTOPHER PARKES, CONSUMER INDUSTRIES EDITOR

SAMSUNG of South Korea is pressing on with its plan to build a £17m consumer electronics factory on Teesside, in north east England, despite fears that the European Commission may impose penalty duties on imported components.

"Although we have not yet received firm clarification of the EEC's intentions, we have been sufficiently reassured to move ahead with the Billingham factory," Mr H. Kim, European operations chief, said yesterday.

The company threatened to cancel the microwave oven, video recorder an colour TV project in January when the Brussels Commission proposed levying anti-dumping duties on components to control "screwdriver" assembly operations.

Consideration of the likely impact of this had delayed Samsung's timetable by a month or so, Mr Kim said. The plant, due to open with a workforce of 150, could now start production in July or August.

Far Eastern manufacturers have been switching increasingly from direct shipments of finished products to assembling imported components in Europe.

Earlier this year Samsung said it would need initially to import up to 80 per cent of the parts for its target output of 150,000 microwaves a year.

However, the microwave oven industry in Britain is highly developed. The establishment of indigenous and Japanese manufacturers has led to the development of an efficient components manufacturing industry.

Electrolux of Sweden, which manufactures ovens for the European market in Luton, Bedfordshire, buys 70 per cent of its parts in the UK.

Mr Kim said the British government had shown a constructive attitude towards inward investment from the Far East. "It is our hope that when a final conclusion is reached by the EEC it will not discourage investment such as ours," he added.

The Commission will be asked in June to impose provisional anti-dumping uties on imports of finished microwaves from Japan and Korea. Mr Jim Collis, director general of the Association of Manufacturers of Domestic Electrical Appliances, said a team of Commission officials was at present visiting British microwave oven manufacturers as part of its investigation of dumping charges instigated by French appliance makers.

It will tour the Far East in the summer, and is expected to report back in time for a final Commission ruling around the end of the year.

Investigation of the case for levying duties on component sets is expected to take longer because of the wider range of products involved.

Jenkins tops poll for chancellor of Oxford

BY BRIAN GROOM

MR ROY JENKINS, former president of the European Commission, was elected chancellor of Oxford University to succeed the late Lord Stockton at the weekend. It was a contest seen as part by-election, part a vote of no confidence in the Government's higher education policies, and part an old girls' and boys' ceremonial.

The election for the largely ceremonial post brought out a record 8,309 graduates to vote out of 40,000 entitled to do so, and attracted greater interest in the media than among the bemused dons at the venerable university's high tables.

Mr Jenkins, a founder of the Social Democratic Party, polled 3,249 votes. The historian Lord Blake, Provost of Queen's College, polled 2,674, and Mr Edward Heath, the former Conservative Prime Minister, 2,348.

The fourth candidate, Dr Mark Payne, a Birmingham medical practitioner, received 38 votes.

Mr Jenkins said: "I hope I can do something for Oxford and for British universities in general. My main role will be to perform at ceremonial functions but I hope I will be a good spokesman and fund-raiser."

Many graduates were there simply to relive their past and enjoy a rare opportunity to exercise their voting rights, but the SDP-Liberal Alliance will take heart from seizing a traditional Conservative fiefdom.

Roy Jenkins: ceremonials and fund-raising

The Tory vote was split between Mr Heath and Lord Blake, widely seen as closest to Mrs Margaret Thatcher. The situation was further complicated when sections of the Conservative leadership swung behind Mr Heath to prevent a vote for him being seen as a snub to the Prime Minister.

Several left-wingers also voted for Mr Heath, but mainly in an effort to stop Mr Jenkins, whom they held responsible for splitting the Labour Party.

Some saw the election as a referendum on cuts in university funding imposed by Mrs Thatcher's Government, but if so it was one which she had no chance of winning. All the candidates, including Lord Blake, deplored the cuts.

Lord Blake had been put forward by some of the university's leading academics on the grounds that a scholar, not a politician, would best symbolise Oxford. Other dons complained that Lord Blake was a poor choice for this because of his close association with the Conservative Party.

The election brought out many worthies to vote, including Sir Alastair Burnet and Sir Robin Day, the political broadcasters, Lord Hailsham and Mr Marmaduke Hussey. Roland Rat, the television children's character who was barred from standing for election on grounds that "rats and fictitious persons do not quality as candidates," was there to attempt to press his ambitions.

There were suggestions that some had voted twice in the election. An Oxford don was quoted anonymously as saying he had voted twice, and knew someone else who had done so.

Mrs Anne Lonsdale, the university's information officer, said that although the practice could not be ruled out, careful checks had been made on the identity of those voting.

A bit of archaic nonsense, Page 19

Eating habits of British improve, survey shows

BY STEFAN WAGSTYL

THE BRITISH are remembering to eat up their green vegetables, according to a Government survey published today.

The latest Ministry of Agriculture report on the nation's eating habits shows that the trend towards a healthier diet continued last year.

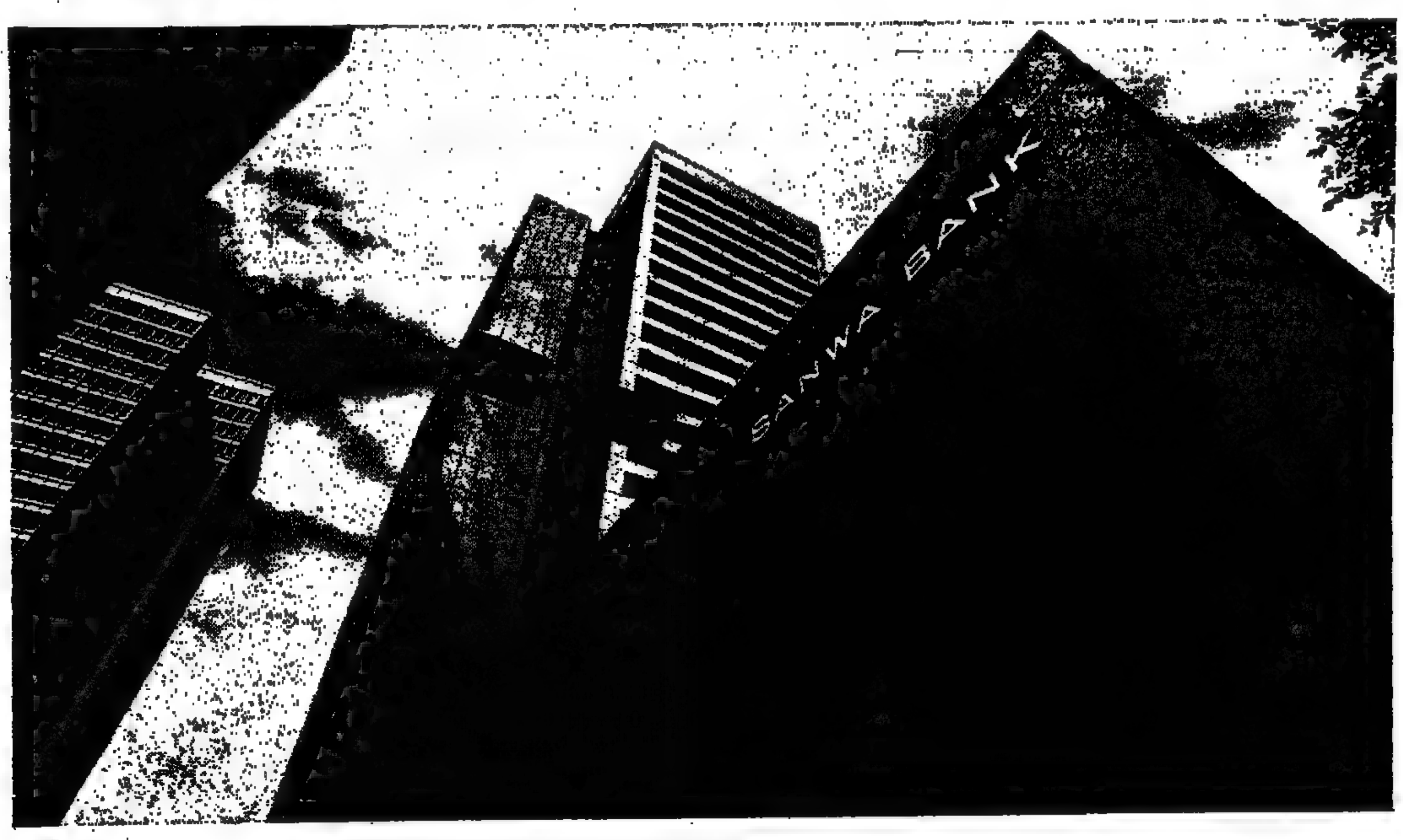
More green vegetables, fresh fruit and wholemeal bread were consumed last year than in 1985, while the amount of potatoes, sugar, and white bread eaten in the UK fell.

Butter consumption was down by 17 per cent as consumers bought more margarine and other fats. Low-fat milk consumption was up 45 per cent at the expense of the consumption of whole (unskimmed) milk, which fell 8 per cent.

But the National Food Survey, which continuously monitors 1,700 British dinner tables, also found evidence that old habits die hard. The consumption of cakes, buns and pastries was up, albeit by only 3 per cent, while the number of biscuits eaten by the average Briton rose nearly 4 per cent.

The amounts of various foods eaten last year by the average person per week in ounces with 1985 figures in brackets were: butter 2.27 (2.63), margarine 4.1 (3.78), beef and veal 6.58 (6.61) mutton and lamb 3.01 (3.27), pork 3.64 (3.45), fresh and processed fish 2.66 (2.53), potatoes 38.76 (40.96), fresh green vegetables 11.11 (9.78), apples 7.25 (6.93), white bread 16.54 (18.37), brown bread 8.15 (7.33). For milk, the figures were 3.04 pints (3.32) for wholemilk, and 0.7 pints (0.48) for low fat milks.

Mr Donald Thompson, a junior agriculture minister, said the report was a welcome sign that Britons were heeding Government advice.



UK NEWS

Pit moderates dig in for battle

Michael Cassell in Mansfield describes preparations by the main political parties for a general election.

LOCALS claim that, on Saturday nights, the centre of Mansfield often has more in common with Dodge City than with an old market town in the heart of the Nottinghamshire coalfields, in the north Midlands of England.

Pubs and clubs regularly see outbreaks of violent fighting, provoked by a simmering bitterness and mistrust which not only destroys the peace but also threatens to smash the mould of local politics.

Although the year-long miners' strike ended in March 1985, memories in Mansfield remain painfully fresh. During the dispute, most Nottinghamshire miners – including those at Mansfield's own two pits – kept working. Men who were never called out on official strike now deeply resent being called "scabs," and the accusation often provokes swift, physical retaliation.

Today, over 80 per cent of the Nottinghamshire men belong to the breakaway Union of Democratic Mineworkers (UDM), based in Mansfield and born out of the irreversible alienation of National Union of Mineworkers (NUM), members from their leadership. In the eyes of the Labour Party and the Trades Union Congress (TUC), it remains illegitimate.

The deep divisions which still flare up after a few pints have already begun to reshape the political profile of Mansfield, a town with an electorate of 65,000 and which the Labour Party has held, with an increasingly slender margin, since the Second World War. An immediate post-war majority of nearly 30,000 had by 1983 dropped to 2,216.

Mansfield has above-average unemployment and pockets of extreme deprivation. But it has been used to moderate politics and for 21 years, has been represented at Westminster by Mr Don Concannon. Previously sponsored by the NUM, he backed the working miners and is now supported by the UDM. He is stepping down at the next general election and says the seat is "up for grabs."

Mr Concannon and his supporters claim that hopes for reconciliation within the community and an end to what he calls "continuing strife, bitterness and intimidation" now appear to have been dashed by the selection of Mr Alan Meale, the hard-left, NUM-backed candidate, to replace him.

Mr Meale, the parliamentary and political adviser to Mr Michael Meacher, Labour's health spokesman, was last October given the job of defending the seat by a local party organisation which has prevented official recognition being extended to the UDM.

The son of a Durham and mining family with an excellent pedigree as a trade union activist and now secretary of the hard-left Campaign group of MPs, Mr Meale says he, too, wants to heal the wounds. He claims to have widespread support from individual UDM members within the party and says his objective is "to rebuild the constituency, stop the infighting and build bridges."

But he also has another message: "The UDM wants recognition and if it opposes the official Labour candidate it will never be accepted. If the members throw their weight behind us, they could improve their chances."

His opponents, both from within the Labour movement and from the other political parties, believe that, far from healing old wounds his presence will rub salt into them. Some believe Labour would in any case have found it hard to retain the seat next time, but they predict Mr Meale's selection will split party support and lead to certain defeat.

Uncertainty about the likely extent of any defections among diehard Labour voters and the number of alternative candidates put up to attract their support ensures that the fight for Mansfield will be among the most intensely fought and unpredictable contests at the next general election.

Critical to the outcome will be the lead given by the UDM, criticised by Mr Larry Whitty, the Labour Party's general secretary, when it announced it was considering putting forward its own candidate for Mansfield.

The union plans to ballot soon on a mandate for a political levy to fund a UDM candidate. According to Mr Roy Lynk, the UDM president: "The selection of Alan Meale was provocative and the lines have now been drawn. He is the wrong candidate for a traditionally moderate Labour seat. Our support will go to someone who is best for the industry, the constituency and the interests of the UDM."

The union has already been encouraged by the results of a poll carried out shortly after Mr Meale was selected which showed nearly 20 per cent support for any candidate which it decided to put up. The same poll indicated that a split Labour vote would hand the Tories a comfortable majority.

There is, however, another local political phenomenon which the UDM has to take into consideration. Last month saw the launch of the Moderate Labour Party (MLP) formed by a small group which believes the local Labour Party is now in the hands of Militants and NUM activists.

Among the party's founders are Mr Michael Gallagher, the former Euro-MP for Nottinghamshire, and several Mansfield district councillors, some of them deselected by Labour because of their support for the UDM and now carrying the MLP banner.

The newly emergent party has only 86 members in Mansfield itself, but has big ambitions. The first test of its electoral potential will come in the May elections, when it plans to field up to 35 candidates in Mansfield and up to 100 in the region.

Mr Brian Marshall, one of the deselected Labour councillors and chairman of the MLP's Mansfield branch, predicts significant local election victories and says the party intends to put up its own candidate at the next general election.

At one time on the NUM list of potential parliamentary candidates, Mr Marshall now has few kind words for his old union: "They lost the industrial battle and are now trying to win the political war. Whatever he claims, we all know Mr Meale stood on the picket lines during the strike. Our success will inevitably bring pressure to bear on Labour to recognise the UDM."

The UDM will be watching closely to see if the MLP wins through or if it falls at the first fence. Mr Lynk emphasises that the ties between the two organisations are tenuous but that there would be no point in them "cutting each other's throats."

If the MLP fails in the May local government polls, a UDM candidate for Westminster looks almost certain. If it succeeds, then the prospects of some form of political alliance remain open.

Mr Meale says he is not worried: "The MLP will take a hammering at the local elections and I have no fears about the Labour vote holding up at the general election."

Of his opponents' personal attacks, he adds: "I am not an ogre. I am no-one's puppet and I am not into waging all-out war with any group of workers."

The other contenders for the Mansfield seat are left hoping that they can steal a win from a potentially divided Labour vote.

The Tories are represented by Mr Charles Hendry, an account executive with a London public relations group who fought Clackmannan in Scotland in 1983. He points to a solid Tory vote and adds: "A lot of lifelong Labour supporters will vote to ensure Alan Meale loses. They will vote for the person best capable of beating him and that will be me."

The Social Democratic Party/Liberal Alliance has Mansfield on its list of target seats and is fielding Mr Barry Answer, who runs a newsagents in the town. An SDP Nottingham city councillor who notched up an impressive by-election victory, he expects the Alliance, rather than the Tories, to be the natural recipient of former Labour votes.

Only after the May elections will the number and character of contestants for the seat become clear. By then, there may be little time left before Mansfield has to make its choice.

1983 election result: J. D. Concannon (Lab) 18,670; R. Wren (Con) 16,454; S. Taylor (SDP) 11,686.

Tin litigation season opens in London

BY RAYMOND HUGHES, LAW COURTS CORRESPONDENT

SPRING IS to be the season of tin litigation in the High Court – the time when the claims and counterclaims sown so plentifully over the last few months will start to blossom.

Hearing dates, between April 28 and the beginning of June, have been fixed for three cases, the outcome of which may determine at least part of the remainder of the litigation.

Rulings will be made on the major issues of the court's jurisdiction and the right of foreign states to claim sovereign immunity.

The first case, on April 28, will be the attempt by Maclaine Watson, a London Metal Exchange trader and a £6m creditor of the insolvent International Tin Council (ITC) to persuade the Chancery Division to appoint a receiver of that ITC asset represented by its alleged right to claim contributions from, or be indemnified by, its 22 members states in respect of its debts.

Maclaine obtained an arbitration award against the ITC and contends that, under the 1972 International Tin Council (Immunities and Privileges) order, the ITC is not immune from English legal proceedings to enforce the award.

The ITC will ask the court to strike out Maclaine's claim, arguing that it is an international body created by treaty over which the court has no jurisdiction.

In January, the ITC succeeded in ridding itself of a compulsory winding-up petition brought against it by another metal trader, Amalgamated Metal Trading, when a judge ruled that the 1972 Order made the ITC immune from the court's winding-up jurisdiction.

On May 11 a judge of the Commercial Court will hear an application by the UK, the other member states and the EEC to strike out the first of the so-called "direct actions" brought against them by creditors seeking to make the states liable for the ITC's debts.

The action is that by J. H. Rayner (Mincing Lane), part of the S & W Berisford commodities group, which claims to be a £15m creditor of the ITC.

The UK, through the Department of Trade and Industry, will argue two grounds for striking-out: That the English court has no jurisdiction, and that Rayner's claim is "frivolous, vexatious and an abuse of the process of the court" in that it discloses no cause of action as the member states are not liable for the ITC's debts.

The other 21 states will support those arguments.

On June 2 the Commercial Court will hear the action in which Shearson Lehman Brothers and its subsidiary Shearson Lehman Metals challenge the validity of rule M – the LME rule promulgated last March which imposed a "ring-out" for tin.

The judgment in that case will affect the size of the claims made by ITC creditors, deciding whether they can be made on the basis of contract prices or the ring-out price.

هكذا من الأصل

THE ARTS

Pygmalion & Dido/Dartford

Max Loppert

Kent Opera's Baroque Double Bill (a catchy umbrella title, not a precise one) consists of the Rameau *acte de ballet* *Pygmalion* (1748) and *Dido and Aeneas*. It was given a single outing at last year's Brighton Festival, then swiftly withdrawn for what was (according to report) a much-needed re-think. This has happened: there has been sensible re-casting of the Purcell title role, and Andrew Parrot has taken over direction of the Kent Opera Baroque Orchestra. On Friday the show re-emerged, at the Orchard, Dartford, as a very fair success, worth catching on any of the company's spring touring dates (Southsea this week, Canterbury, Eastbourne, Norwich and Plymouth thereafter).

Pygmalion is a slight piece but a delightful one, an ideal curtain-raiser. It was popular and much-performed in Rameau's day, and deserves its re-discovery in ours as an ideal 18th century curtain-raiser, rococo rather than baroque. Pygmalion sings of his fatal love for a statue of his; Céphise, formerly his beloved, reproaches him for the obsession; he prays to Cupid, and marble becomes flesh; the statue sings of her love for the sculptor; and general rejoicing follows, in song and (mainly) dance.

That something so dramatically slender should prove so captivating owes everything to the extraordinary delicacy and economy of the music, with its wondrous turns of harmony (at, for instance, Cupid's first appearance), its points of brilliant instrumental colour and flashes of rhythmic energy, its total mastery of dance forms. Mary Forey, as producer and choreographer, creates a modest spectacle. There are just three dancers (as three Graces) and two athlete-tumblers (anachronistic but enjoyable); Roger Butlin's designs keep the chorus in black and the principals in black and white, against a rather dour central marble frieze (it returns for *Dido*).

But because Mr Parrott and his players give so vivid and stylish an account of the score, all is well. Julian Pike, whose very musical high tenor lacks a sufficiently forward projection of tone and words, Patricia Rozario (a melting, wide-eyed Statue), and Melanie Armitstead (Cupid) are the leading singers: Rameau's ornate, wide-ranging voice parts are fearfully demanding, and it is to Kent Opera's great credit that no one shows less than due competence. Anne Ridler's translation is another plus.

The static manner and rather odd chorus-dress of Norman Platt's *Dido* production throws extra weight on the singing; and here the level is even higher. Eirian James gives a wonderfully impassioned, focussed, and musically sensitive account of Dido—as a Purcell mezzo-soprano she manages to be both "authentic" (with admirably taut phrasing, pointed use of ornament, precise application of vibrancy) and theatrically commanding. Miss Rozario's Belinda, Peter Harvey's Aeneas, and Alexandra Mercer's Sorceress are well in the picture. The First Great Masterpiece of English opera seems as great as ever.

Swan Lake/Covent Garden

Clement Crisp

A second look at the Royal Ballet's new *Swan Lake* on Friday confirmed first-night feelings. The choreographic structure is admirable. The fourth act, with its tenderly miming swans and the soft sweep of its dances, is a masterpiece never before seen in this country with the proper forces, and in its first solo entry Rosalyn Whitten dances with touching rightness. The first act's excesses of decoration in design and company performance are easily to be remedied by pruning one-third of the set and costuming, and two-thirds of the posturing and predictabilities of the supporting players, who indulge in the same sort of activity in *Manon*, *Mayerling*, and any other crowd scene they can get their over-busy hands on.

The dropping of trays of goblets by maddened retainers is straight from a panomime; much of the *Tutor's* behaviour comes from *Carry on Grimacing*. The model of performance style is Deanne Bergsma, en beauté and ideally subtle as the Princess Mother, making a most distinguished return to the Royal Ballet.

Subtle and ideal, too, was Stephen Jefferies as Siegfried, playing throughout the evening with a discretion and a depth of feeling that wrought marvels in the lake-side scenes, where he generated with Fiona Chadwick's Odette an emotional gravity all the more touching by its simplicity. Finally, the first act's pas de trois needs a change in its white costuming. The logic of the trio's appearance—two pupils from a ballet school partnered by a young painter?—escapes me: let the three be dressed as courtiers, and then the clean merits of the dancing by Ravenna Tucker, Karen Paisey and Anthony Dowson will seem less like a graduation exercise.

These carpings apart, one element on Friday needed immediate rectification. At Thursday's gala, Mark Ermler's tempi were sometimes brisk, but by the next night they had become positively cursory. The waltzes went at breakneck speed, and for the first time in my life I felt sympathy for those four cygnets when they rattled over the stage as if pursued by wolves.

The score must breathe. The dance must breathe—not least in the divertissements of the ballroom, where the Royal soloists will never show that Leningrad expansiveness of movement that is required of them if they are harried by prestissimos. Fiona Chadwick demonstrated a nascent grandeur which will appear all the more beautiful when she further opens out her performance. On Friday there were passages where the dance's wings were clipped, both by tempi and by indecision of style—Odette's mime narrative was an unseemly gabble. Miss Chadwick has the technical power (none more so in the Royal Ballet) and the intelligence to take the double role and make it boldly hers, expanding its phrasing and the very outlines of the choreography. The Royal Ballet's dread politeness of diction is not hers, but dignity and amplitude of manner are.

In an already commendable reading her relationship with the ever-impressive Jefferies brought many rewards of feeling truly stated, as in Odette's gesture at the end of her first encounter with Siegfried, when the young Prince takes her extended hand, a compact of lasting love beautifully made. There is much to hope from his partnership to reveal the stature of this notably imaginative and sensible staging. It is not a ballet for tyros. It demands, and this is the challenge for the company's future, performance by gifted and unafraid artists.

Architecture/Colin Amery

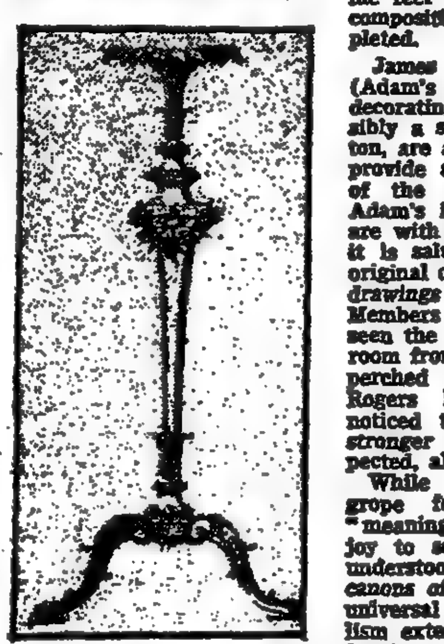
Robert Adam's Kedleston legacy

James Paine must have been quite a gent. When his patron, the first Lord Scarsdale, appointed the more fashionable Adam brothers to complete Kedleston he was generous enough to write, "The noble owner has placed this great work in the hands of those able and ingenious artists, Messrs *Robert and James Adam*." Paine even pleaded that he had so many other commissions in the country that he had begged to be excused from Kedleston.

We can surmise today that the noble patron in the 1760s decided that Robert Adam was the man of the moment, and it would be fascinating to know how well the two architects jogged along during the brief period when Paine was working on the North Front and Adam was designing ceilings and interiors.

These squabbles and changes in taste pale into insignificance alongside the achievement of Adam at Kedleston. His work in that great house is of such monumental moment that it outdoes all his later work. It is therefore marvellous to be able to examine at close quarters some 80 architectural drawings relating to Kedleston Hall — the house, landscape and furniture — on exhibition at the RIBA Heinz Gallery, 21, Portman Square, London W1, until April 11.

The exhibition has been arranged by Gervase Jackson-Stops and Leslie Harris; it is part of fund-raising activities to enable the National Trust to raise the last £2m they need to secure Kedleston for the nation for ever. The drawings will tour America in the effort to encourage donations towards the appeal to save what is undoubtedly one of the greatest neo-classical houses of Europe. (All profits from the excellent catalogue go to the Kedleston Appeal.)



A Rococo candlestand of the 1750s from Kedleston Hall

The exhibition (which includes a painting, by Jan Griffier of the old Kedleston, a red brick house probably designed by Smith of Warwick, which was only 20 years old when the new grand vision of Kedleston was begun) offers a highly important series of drawings that, in themselves, depict the development of Neo-classical ideas in England. The drawings of the variations upon the South Front with and without the pavilions help to explain Adam's theories about "movement" in architecture.

To see the drawings of a piece of architecture so well known is a way of learning to read clues to the inspiration of a great design. The combination of a triumphal arch with a dome is in fact a startling one. The contrast of the convex dome and the concave nature of the perron (curved flight of steps) below are the basis of a rare and intriguing design that depends upon the play of light and shadow. Seeing the drawing of the South Front, dated 1760, with the two wings that Adam wanted, with their Venetian windows, only makes me feel sad that this exciting composition was never completed.

James "Athenian" Stuart's (Adam's rival) designs for decorating a State Room, possibly a specific one at Kedleston, are also shown here. They provide an instructive glimpse of the sources of some of Adam's ideas. Familiar as we are with the "Adam" ceiling, it is salutary to examine the original colours in the intricate drawings prepared in his office. Members of Lloyd's will have seen the newly restored Adam room from Bowood that is now perched inside the Richard Rogers high-tech cage, and noticed that the colouring is stronger than is usually expected, although it is accurate.

While modern architects grope for symbols and a "meaningful language" it is a joy to see how easily Adam understood and followed the canons of Classicism, and how universal it still is. His symbolism extended naturally to the furniture; at Kedleston the major pieces of furniture all still survive and, thanks to the National Memorial Heritage Fund and the Appeal, will be able to stay in the house.

One very delightful feature of the exhibition is to see the care and concern that Adam lavished on the landscape and the ornamental buildings in it. His own drawings—they have the same touch as those of Clerisseau—are informal and romantic. They show a much more Arcadian vision than the precise and geometric designs for the interiors. This exhibition of drawings shows the sensitive and elegant underpinnings for Kedleston. It is a timely and beautiful exhibition, and a gentle reminder that funds are still needed to secure for the nation every aspect of this elysian vision.

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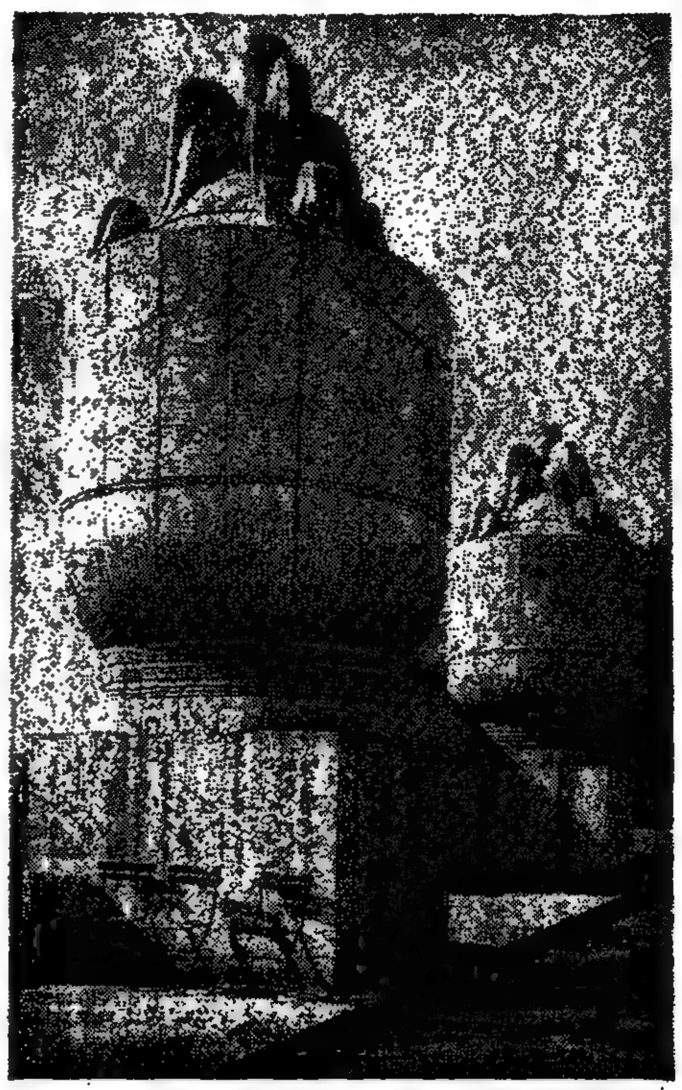
Until March 27 there is a display of exceptional architectural photographs by Frank Yerbury (1885-1970) at the Architectural Association, 34-36 Bedford Square, London W1. Yerbury travelled in Europe in the 1920s and 1930s and so was photographing the pioneering buildings when they were new.

His work was widely published in England and was a potent influence on the development of modern architecture. The work of the northern European countries inspired him, particularly Sweden and Denmark and the architects of Holland.

It is the high quality of his black and white images that sings in this exhibition. His eye was true, his sense of scale immaculate. His work is beautifully commemorated by the catalogue; the exhibition is a tribute to a man truly inspired by the architecture of his time.



Giant urns built for the Arts Decoratifs Exhibition in Paris in 1925 and photographed by Frank Yerbury

The Lost Ring/Stratford East

Claire Armitstead

The Theatre Royal has done so much to further the lot of Afro-Caribbean theatre in London that it comes as something of a surprise to find it making only its first sally into the Asian treasure house. On the evidence of its handling of this Sanscrit classic it will take some time to feel at home there.

The Lost Ring is one of the stories from the epic Mahabharata that is immediately familiar. On one level a simple tale of a hermit girl's love for a king winning through, it comes to the stage via the 4th century playwright Kalidasa as a subtle and complex exploration of virtue and reward.

When the ring with which the king pledges himself to his bride is spirited away, he forgets his vow; only when it is found in the belly of a fish and returned to him is honour restored. Although Jeff Teare's programme note draws attention to the philosophical underpinning, his direction is such a hotch-potch of styles that the dignity of the story is largely lost. There is a sense throughout of tradition learned from a textbook, of compromise to an idea of Western appreciative founds that is needlessly patronising.

To be fair, the show will undoubtedly improve as it matures and tightens up. Even now it is not entirely without plus points—notably its use of live music played on a range of instruments by the excellent Baluji Srivastav in a tradition which employs rhythm and tune as punctuation: feather-light drumming and strumming erupting into rolls and surges at moments of dramatic significance. The fact that the two young dancers brought in at one point for a speciality turn have to dance to a tinny, taped accompaniment seemed part of the unease of a production which suits the elaborately stylised gestures of Indian classical drama to an adaptation that tries to be idiomatic, and fits traditional masks on comic caricatures that are entirely English.

The love story itself has its moments, though Kristine Landon-Smith seemed more at ease in the genre than Lyndam Gregory as her wimpish suitor. In Alan Cowan's portrayal of Madyava, gluttonous companion to the king, there is a vein of coarse comedy that, particularly early on, seemed straight out of Carry on up the Khyber. Significantly, I should imagine, he did not raise many laughs.

Formation of Glasgow Youth Jazz Orchestra

The Glasgow Youth Jazz Orchestra, assembling young instrumentalists from every part of Scotland, will be launched during the Glasgow International Jazz Festival '87, which takes place between June 26 and July 5.

Appointed as musical director is Bobby Wishart, the Scots flautist and saxophonist who is a music teacher in Renfrewshire.

British premiere of German play

The Almeida Theatre, Islington, is to present the British premiere of German playwright Botho Strauss's *The Tourist Guide* from April 6 to May 2, with a cast of Paul Freeman and Tilda Swinton.

The play is translated by Anthony Vivis and Tinch Minter, directed by Pierre Audi, and has original music composed by Oliver Knussen.

Michele Ward and Joan Campion

My Mother Said I Never Should

Michael Coveney

The diversity and vigour of theatrical life in the North West are given further illustration in the Contact Theatre, Manchester's presentation out on the Oxford Road of two new works by relatively new playwrights. Cindy Artiste's *Dream with Teeth* is back this week, while Charlotte Keatley's *My Mother Said I Never Should* returns by popular demand on March 23.

Ms Keatley's collage-like examination of mothers and daughters across four generations bristles with intelligence, sensitivity and many good lines ("I may be as old as the Queen Mother," says Doris the great grandmother, "but I buy all my smalls in Top Shop"). There are similarities with Sharman MacDonald's *When I Was a Girl I Used to Scream and Shout*, but Ms Keatley prefers a wider, raking approach to the problems of maternal misery and filial impiety. There is not one domestic flash-point, but many, stretching from Doris's engagement and job promotion in Oldham in 1923 — a blush of joy with which the piece ironically ends — to the packing-up of clothes and memories in a Cheadle Hulme house and the farming-out of bay Rosie by her working single mother, Jackie, to the mother's mother Margaret (Doris's daughter).

The method of construction is transparent, scenes brutally juxtaposed to achieve stark elucidation of, for instance, how mothers in London reacted to learning, in 1961, that a daughter was on the pill ("As long as it doesn't affect your A-levels"); or how, when Margaret reports that her husband has left her, Doris remembers the moment she had ceased to be an object of sexual desire. The scenes do not always cohere with equal force or texture. But a sustained middle section, the house-clearing for auction, shows the playwright can weave denser patterns when required.

The title's nursery overtones are reflected in the least successful passages, a general playground girlishness laced with revenge motives and a seance to unleash a curse on all mothers. But what is refreshing is Ms Keatley's predilection for mixing the brew. The production by Brigid Larmour is alive to this style, overlaying the text with a dream-like surreal quality interestingly evoked in Nettie Edwards' design arrangement of such floating material emblems as a down-stage swing, a solid grand piano, the hanging bough of a cherry tree, a sudden, almost potent, pot of pink geraniums, a laundry basket.

The acting is of an exceptional luminosity and skill, Joan Campion's Doris one of the best studies of reflective but jocund old age I have seen in a long while, worthy of Mona Washbourne at her best. Michele Wade is the incisively temperamental child, and Jenny Howe and Jane Paton are adept at switching both dress and inflection to suit whatever decade they happen to visit.

Ghetto/Riverside

Martin Hoyle

The word "ghetto," though not the concept behind it, originated in Renaissance Venice. Seamus Finnegan's *Ghetto* at the Riverside Studios, Hammersmith, emphasises the role of Mother Church in this institution. (Oddly, since the Borgia pope Alexander VI had shrewdly welcomed Jewish refugees with open arms after their expulsion from Spain in 1492.)

This new play tantalisingly touches on fascinating aspects of Christo-Judaic relations — the enforced confinement during church festivals, the Jews of mixed blood who tried to "pass," much as halfcastes once tried to pass for white — before plunging into staggeringly crude melodrama which Mrs Henry Wood would have considered far-fetched.

Janey Gardiner's set, backcloths with bold, blurred impressions of pillared interiors, crowds and bustling splendour, looks well. So do the period costumes, sumptuous by fringe standards. But the plot is broken-backed, the thoughts banal, the language curiously Victorian. The story's creaking contrivances reduce the characters to such cries as "My dear lady, who are you and how did you gain entrance to my study?" Annie Raitt's remorseful outcast, appearing in the priest's sanctum (Timothy Davies's prelate is more a rugger-playing school chaplain than a Counter-Reformation man from *La Serenissima*, though he does pinch a young musician's cheek in a cautiously decadent way), leaves her route unexplained but declares: "I am this scoundrel's mother!" of randy, gold-clad Giorgio.

As the latter, David Morrissey's stilted demeanour grows even more sheepish when described as "a deprived, wild animal that stalks the sewers of Venice." In the brisk exchange of clichés that ensues, he counters with "whited sepulchre!" while Miss Raitt rashly opens a second front by emitting strangulated breaths, as if from a leaking balloon, at the priest: "You — are — seared — Father Rocca — soured." "Damn you, woman!" is his unavoidable reply.

Jon Rumney's bereaved *paterfamilias* (shades of *Spanish Tragedy*) rallies his maker with "I asked You for a sign—why did You have to give me such a cruel one?" and for a second I thought I was back with Topol at the previous evening's *Fiddler on the Roof* in Manchester. No such luck. Julia Pascal's direction runs to stately groupings but never lifts most of the acting above the frightful. On this showing, Mr Finnegan, the boxing correspondent of the magazine City Limits, lacks a feeling for language, an instinct for character and a knowledge of construction.

Saleroom/Antony Thorncroft

Tokens of a king

While Sotheby's is over-exciting the media with the sale of the Duchess of Windsor's jewels in Geneva on April 2-3 — at minimum reckoning the £5m estimate should be doubled and possibly trebled—Christie's has its own slice of royal intrigue this week.

On Wednesday it is offering three of the presents that King Edward VII showered on his mistress Alice Keppel. They include a gold-mounted riding whip with a top estimate of £3,000; it carries the Prince of Wales feathers at its top. There is also a miniature of the King, and a gold-coloured notecase.

There is considerable human interest surrounding another lot at Christies, a striking clock-watch to be sold on the same day. It has been blamed for the loss of Sir Cloudsley Shovell, Admiral of the Fleet, along with six ships off the Isles of Scilly in 1707. Sir Cloudsley based his navigational calculations on his watch, with lamentable results. He managed to crawl ashore and a local woman, after checking that he was dead, lifted his watch as a momento.

There is actually a happy ending. The scale of the disaster persuaded the Government of the day to offer the considerable award of £20,000 for a timekeeper that could accurately measure the East-West position, and Harrison and Mudge developed non-commercial timepieces while Arnold and Earnshaw came up with the chronometer which led both to Greenwich Mean Time and the establishment of British naval superiority in the later 18th century. The ill-fated watch is estimated at £2,000.

Sutton Place has had some famous owners in recent years, most notably J. Paul Getty. It has now been acquired by another rich American, Frederick Koch, who will house his excellent collection of 19th century art there. As a result the house is to be cleared of its existing contents at an auction organised by Sotheby's at its Summers Place saleroom in Sussex.

There is some good oak, including a 17th century refectory table which might make £8,000, and a Charles I serving table with a top estimate of £5,000.

Also at Sotheby's today, in an Islamic sale, a silver laid incense burner, made in Mesopotamia in about AD 1250 comes under the hammer. When brought in to the Front Counter in its filthy appearance made it seem valueless. Now, recognised and cleaned, it could sell for £15,000.

Arts Guide

Music/Monday. Opera and Ballet/Tuesday. Theatre/Wednesday. Exhibitions/Thursday. A selective guide to all the Arts appears each Friday.

March 13–19

Music

PARIS

Gundula Janowitz, soprano, Peter Waters, piano (Mon). Theatre de l'Athenee (47426727).

Vladimir Spivakov, violin: Mozart, Shostakovich, Tchaikovsky (Mon). Salle Gaveau (45632030).

Orchestre Colonne and choir conducted by Jean Sourisse, vocal ensemble Audite Nova: Liszt, Faure (Mon). La Trinite church (42337289).

Vladimir Spivakov, violin, Vladimir Krainev, piano, Tamara Sinyavskaya, Bolshoi's mezzo-soprano: Bach, Shostakovich, Mozart (Tue). Salle Gaveau (45632030).

Orchestre de Paris conducted by Peter Flor: Weber, Bruckner (Wed, Thur). Salle Pleyel (45630796, 1pm–5pm).

Ensemble Orchestral de Paris conducted by Armin Jordan, Dame Janet Baker: Händel, Mozart, Mahler (Thur). TMP-Chatelet (42334444).

BRUSSELS

Palais Des Beaux Arts (5125045): Festival Strings of Lucerne conducted by Rudolf Baumgartner: Händel, Bach, Mozart, Boccherini, Mendelssohn (Tue). Belgian National Orchestra conducted by Mendi Rodan with Janos Starker, cello – Haydn, Mahler (Thur).

LONDON

Paul Tortelier, cello, with Geoffrey Pratley, piano. Bach, Beethoven, Debussy and others. Barbican Hall (Mon). (638 8891).

London Symphony Orchestra conducted by Sir Colin Davis with Arturo Benedetti Michelangeli, piano. Beethoven and Sibelius. Barbican Hall (Thur).

BBC Concert Orchestra conducted by Laszio Heltay with Eiddwen Harrhy, soprano and Stephen Roberts, baritone. Faure and Walton. Royal Festival Hall (Thur).

BBC Symphony Orchestra and Chorus and BBC Singers conducted by Sir John Pritchard. Dvorak, Sibelius and the first British performance of Szymanowski's Harnasie. Royal Festival Hall (Wed).

Endellion String Quartet with Douglas Boyd, oboe, Steven Isserlis, cello and Olli Mustonen, piano. Britten and Shostakovich. Queen Elizabeth Hall (Thur). (928 3191).

NETHERLANDS

Amsterdam, Concertgebouw. The Leonid Hambro Piano Quartet (Mon). Huub Kerstens conducting the Xenakis Ensemble, with Aki Takahashi, piano: Xenakis (Tue). The Concertgebouw Orchestra conducted by Kent Nagano, with Michel Béroff, piano: Takemitsu, Messiaen, Janacek (Thur). Recital Hall: Dutch chamber music, with Ton Koopman, harpsichord (Mon). Jard van Nes, contralto, accompanied by Gérard van Blerk: Sibelius, Strauss, Pijper, Debussy, De Falla (Tue). The Mélos Quartet: Beethoven, Schumann, Ravel (Wed). (718345).

Rotterdam, Doelen. Massed choirs with works by Tchaikovsky, Verdi, Gounod, Koenneman (Thur). (4142911).

Utrecht, Vredenburg. Günther Herbich conducting the Rotterdam Philharmonic, with Michel Roche, cello: Schubert, Lalo, Beethoven (Thur). (314544).

Arnhem, Musis Sacrum. Piano recital by Geoffrey Douglas-Madge: Busoni, Liszt, Beethoven (Mon). (516191).

Eindhoven, Schouwburg. The Leonid Hambrow Piano Quartet: Bernstein, Mozart, Fauré, Dukas, Gershwin (Thur). (111122).

Groningen, Oosterpoort. Mischa Maisky, cello, Steven Hoogenberk, piano: Stravinsky, Bach, Schubert, Bloch, Paganini (Tue). Wim van Beek, organ, and the Toonkunst Choir: Widow, Franck (Wed). (131044).

SPAIN

Madrid, Orquesta y Coro Nacionales de Espana conducted by Walter Weller with violinist Domingo Tomas: Mozart and Tchaikowsky. (Wed and Thur). Orquesta y Coro de RTVE conducted by Heinz Fricke: Mozart, Devienne and Bruckner. (Thur). Teatro Real. Carlos III.

Barcelona: Chamber Orchestra of Prague. Bach, Mozart and Vorisek. Palau de la Musica Catalana. Amadeo Vives 1. (Thur).

ITALY

Milan: Teatro alla Scala: Amsterdam 18th Century Orchestra: Bach, Haydn and Mendelssohn, conducted by Frans Bruggen (Mon). (80.91.26).

Rome: Auditorium in Via Della Conciliazione: Garcia Navarro conducting the S. Cecilia orchestra and the Guitarist Narciso Yepes. Stravinsky, Rodrigo, Turina and Ravel (Mon and Tue). (654 1044).

Rome: Chiesa di S. Agnese in Agone: The violinist Giuliano Carmignola (with the Gonalone Chamber Orchestra). Bach and Vivaldi (Thur). (68.75.952).

Rome: Teatro Olimpico (Piazza Gentile da Fabriano): The pianist Maria Tipo. Scarlatti, Beethoven and Schumann (Wed). (393 304).

Rome: Teatro Ghione (Via Delle Fornaci 37): Alessandra Ramacci, piano. Scarlatti, Testa, Mendelssohn and Chopin (Thur). (637.2294).

NEW YORK

Music at the Crossroads (Whitney Museum Branch): The third annual American Sampler this week features the Jimmy Heath Quartet and Jimmy Heath and his Latin Jazz performing contemporary jazz. (Tue, 6pm). Sculpture Court, Philip Morris Bldg, 42nd & Park.

Carnegie Hall: Amadeus Quartet with Bruno Canino piano. Mixed programme (Wed); Orchestre National de France. Lorin Maazel conducting. Mixed programme (Thur). (247 7800).

New York Philharmonic (Avery Fisher Hall): Mstislav Rostropovich conducting. Prokofiev, Tchaikovsky (Tue); Mstislav Rostropovich conducting, Galina Vishnevskaya soprano, Anthony Rolfe-Johnson tenor, John Shirley-Quirk baritone and Westminster Choir directed by Joseph Flummerfelt. Britten (Thur). Lincoln Center (874 2424).

American Symphony (Avery Fisher Hall): Peter Taboris conducting. Dvorak (Mon). (239 0205).

Philharmonia Virtuosi (Town Hall): Paul Peabody director. Vivaldi, Bach, Handel (Tue). (842 1818).

CHICAGO

Chicago Symphony (Orchestra Hall): Chamber series with the Chadamin Trio. Heiden, Joseph, Tchaikovsky (Mon); Sir Georg Solti conducting. Kiri Te Kanawa soprano with Chicago Symphony Chorus. Bach (Thur). (435 8111).

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Monday March 16 1987

A time to rebuild

WHEN MANAGERS of multinational companies find that their dealings with union officials are more constructive in Britain than in Germany or the US, it is time to take notice. British industry still has deep-seated weaknesses, of which training is an example. But several things have changed for the better in the last five or six years. There is now a chance of regaining some of the ground lost to foreign competitors over the past three decades. Among the reasons for optimism are industry's greatly improved financial position, the recent fall in sterling which has increased the profitability of exports and—more fundamental but less easy to quantify—the reshaping of companies and factories to achieve higher standards of performance. A great deal of capacity has been shut down. Most managers have been preoccupied with cost-cutting and rationalisation. The question now is whether they can raise their sights.

Better management is most visible in some of the country's largest companies, but it is not confined to them. A common thread has been greater clarity of vision about objectives, leading to the allocation of resources for those sectors in which the company has a realistic chance of remaining or becoming internationally competitive. The sale of peripheral businesses by groups such as TI and GKN has been part of this redefinition of goals. At the same time the divesting operation has often ended up—perhaps through a management buy-out—in the hands of more single-minded owners and has thus become a nucleus for growth in its field. Takeovers, or the threat of them, have played some part in all this but probably not a central one. If the apparent cooling of take-over fever leaves companies to put more emphasis on organic growth, so much the better.

Exerting authority

Another strand has been the recovery of management self-confidence. Companies have faced up to decisions which in the 1970s were thought too difficult or too disruptive. No doubt this is partly due to the weakening of the trade unions which in the past has been an obstacle to change or at least an excuse for postponing it.

But it is not just a matter of managers exerting their authority. There are signs of greater understanding and collaboration between management and employees and this is reflected in innovative approaches to dispute settlements and payment systems. New foreign investors, especially the Japanese, have often led the way.

The changes have been forced on companies as a result of competitive pressure. That pressure needs to be maintained—through appropriate exchange rate policies, through removing barriers to imports and through a genuinely competitive attitude to government purchasing. The idea that the way to develop world leaders is to give them a protected home market should by now be buried.

International leadership must be the goal, for large and small companies alike. It is true that some sectors of industry have fallen so far behind, and import penetration is so high, that recovery will be very difficult. Passenger cars are an extreme case. But even here the export performance of UK-owned companies particularly Jaguar and to some extent Rover, is improving, while resourcing policies of Ford and General Motors are shifting in Britain's favour.

Interest rates

Fears have been expressed that some companies are close to the limits of their productive capacity and that they will respond to strong demand by raising prices and wages. Moreover with interest rates at their present levels investment in additional capacity is said to be hard to justify in terms of return on capital. Clearly the downward trend on interest rates needs to be maintained. But it is also important that the entrepreneurial instincts of businessmen should be strong enough to move beyond the defensiveness of the last few years.

Having scaled back their operations to a size and shape at which they can function profitably, businessmen have to move into a higher gear. The objective should be expansion rather than survival. The smaller entrepreneurial companies, whether formed by start-ups or management buy-outs, need to aim for something more than a respectable niche in the domestic market. Not every company can match the ambitions of a Glaxo in pharmaceuticals or an ICI in the world paint industry, but the opportunities to rebuild the UK's share of export markets have rarely been better.

Protectionism and national defence

THE REAGAN Administration should strongly resist pressure, coming mainly from the Commerce Department, to prohibit on national interest grounds the proposed takeover by Fujitsu, the Japanese electronics group, of Fairchild, the semi-conductor company. The US has been arguing, in Gatt and other forums, for a concerted effort to remove obstacles to the free flow of capital; the protection of "national champions" from foreign take-over is rightly regarded as one of the distortions that should be eliminated. For the US to go against its own principles in the Fairchild case would give the wrong signal to the rest of the world.

At stake are two questions of increasing importance to the debate on international trade. How far should countries which support free trade be prepared to go in opening up their domestic markets to foreign investment and their public procurement to foreign suppliers? And where should they draw the line when it comes to issues of national security?

To answer the first is easier than the second. It is quite simply "a very long way" as most US trade officials would readily admit. The Reagan Administration has long extolled the virtue of free investment flows and open public procurement policies. Free investment is a key plank of its proposed trade agreement with Canada. Open public procurement is the cornerstone of its argument why Germany should liberalise its telecommunications sector, as well as its so far unsuccessful attempt to open the Japanese market to US supercomputers.

Economic sense

Viewed from this perspective the case for blocking the Fujitsu bid is extremely weak. Though it has recovered from the worst of the recession in the US semi-conductor industry, Fairchild needs the extra investment and technology that its prospective Japanese parent would bring. For its part Fujitsu would acquire a strong distribution system in the US, a market in which it lags behind competitors such as NEC.

From the standpoint of the companies themselves, the combination thus makes sound economic sense, all the more so as Fairchild has been under the auctioneer's hammer for some time and no US buyer has been found. A possible obstacle, which the Justice Department is still investigating, is that the bid would contravene US anti-trust regulations. Fairchild denies that this would be the case.

The water becomes muddier, however, when one considers national security. Fairchild is the second largest supplier of micro-chips to the US military. Although quite a large proportion of these chips could be bought elsewhere, some of them are special to Fairchild.

National security is not a simple question of Fairchild passing into foreign hands—it is already foreign-owned, by the Schlumberger group—but there appears to be a more broadly based anxiety. Opening the door to one takeover by a Japanese company of a US semi-conductor business might unleash a wave of similar purchases. US semi-conductor firms have been badly hit by competition from Japan. Now they are vulnerable to foreign predators, especially Japanese companies with appreciated yen to spend.

Underlying motive

There must be a strong suspicion that national security issues are being used to support crude "industrial policy" arguments—that the health of American electronics would be damaged if a substantial part of the semi-conductor industry was owned outside the US. It is hard to see much force in either argument. From the point of view of US defence procurement, the country would probably gain from a less protectionist approach both to foreign ownership of defence contractors and to purchases of equipment from offshore suppliers. Japan, after all, is a close ally of the US and has technological skills which should be valuable to the US defence effort.

MR CHIRAC AND THE PRESIDENCY

Right platform, but may be the wrong man

By David Housego in Paris

IN THE LAST, difficult year of "cohabitation," French politics has had the look of one of those fairground entertainments, where volunteers are invited to step forward and challenge the champion.

When, a year ago today, Mr Jacques Chirac stepped into the ring, as Prime Minister at the head of a right-wing coalition, he looked to have a strong chance of outboxing rival candidates in the run-up to the 1988 presidential elections.

The economy was poised to reap the windfall benefits of falling oil prices and a weak dollar and France seemed ready for Mr Chirac's agenda of privatisation and freer markets. After a major U-turn on economic policy, the Socialists looked directionless.

A year later, things are not so simple. The economy has stalled at a lower rate of growth (around 2 per cent in 1987) and a higher rate of both unemployment and inflation than expected. France thus finds itself slipping behind Britain and Italy in the growth race; Mr Chirac warned a few days ago that the full fruits of economic success were unlikely before 1992.

In spite of these things, the overall balance of strength between the parties remains firmly in the right's favour with the electorate split on a 54:46 ratio according to the latest polls. What damages Mr Chirac are the divisions within the right—with the extremist National Front attacking from one side and the centrist UDF grumbling from the other. "The only thing that could make us lose are our internal squabbles," says Mr Alain Juppe, Minister of the Budget.

By the weight of his silence, his half-voiced criticisms, and the impression he conveys that France is missing the boat, Mr Raymond Barre, the former Prime Minister, has both indirectly undermined Mr Chirac, while strengthening his own case to take over running the administration. He is now, according to the opinion polls, the most favoured candidate for the presidency. With 57 per cent of voters expressing dissatisfaction with Mr Chirac, the Prime Minister finds himself the least favoured of the major presidential candidates.

It is these divisions rather than any strengths of its own that gives the Socialist Party its chance in next year's election. Mr Mitterrand, who would be the most popular candidate on the left, has yet to make clear whether he will stand. He will be 72 next year and looks reluctant to run. But he risks being blamed for the defeat if he keeps out of the fray.

Thus half way through "cohabitation"—the ugly name given to power sharing between a Socialist President and a conservative Prime Minister—there is much debate about the lessons to be drawn.

The most widely acknowledged of these is that cohabitation has been administratively clumsy and self-defeating and is thus unlikely to be repeated.

In its early months cohabitation was popular because it seemed to fulfil a long-standing French dream of consensus in national political life and because it appealed to place a restraining hand on the unpredictable reformist ambitions of Mr Chirac. At the same time, it did not stop the Government putting through a hefty legislative programme that included privatisation, deregulation and tougher law enforcement.

Political alignments are taking place which cut across traditional boundaries

In practice cohabitation has presented a wonderful opportunity for a subtle President Mitterrand to use the prestige of his office to undermine Mr Chirac's policies.

A visitor from Mars dropping in on a briefing at the President's office in the Elysee palace would be amazed at the fire brought to bear against the policies and programmes of a government over which the head of state officially presides. In his public stances, Mr Mitterrand's expressed sympathy for the students in December and his reception of striking railway workers shortly afterwards undoubtedly encouraged demonstrations and strikes that provoked the slide in Mr Chirac's fortunes. The majority of Frenchmen is now against cohabitation.

On the positive side, Mr Chirac's year of government has shown that the shift in France towards a more market-oriented economy and a reduction in the role of the state—and thus away from the controls and regulations so long cherished by French administrations—is part of a fundamental movement in French society and probably irreversible.

A substantial body of deregulation—including the lifting of price and exchange controls, the management of monetary policy through the use of interest rates, the opening of the financial markets, the ending of the brokers' monopoly in Bourse transactions, the easing of takeover procedures and even privatisation—has now been carried through and is unlikely to be called in question by a future government.

It coincides as well with a convergence among the main political parties over the macro-economic objective of holding down inflation and strengthening company profitability. Whatever hesitations the French might have over opening public purchasing to foreign competition or relinquishing any particular monopoly, the EEC's aim of creating a single market by 1992 will continue to push them down the path of decontrol.

The disappointment for Mr Chirac's administration has been the economy's slowness in responding to this more free market climate. Employers were quick to react to the easing of redundancy procedures to cut back their workforces—thus pushing up unemployment—but the improvement in corporate profits has been used more to retire debt than to boost investment. Thus, Mr Chirac's boast that his conservative administration would generate a climate of confidence and accelerate capital spending has been frustrated.

This sluggishness in the economy, however, is probably also due, in part to the somewhat blurred signals that Mr Chirac initially gave to the business community. There was much talk of providing an economy of "liberty" and of lower taxation. But there was not that single-minded emphasis on cutting public sector deficits to make room for industrial investment which West Germany adopted and which Mr Chirac now seems to see as at the root of his neighbour's success.

At the same time France's sharply shrinking surplus on industrial trade over the last year and its 2½ percentage points loss of market share in world exports of manufactured goods, have shown that the overall competitiveness of French industry was much weaker than believed. France has suffered from a long backlog of inadequate investment: in both products and markets its industrial exports have been too heavily geared to the developing countries and those of the Organisation of Petroleum Exporting Countries which have been most squeezed by the fall in oil prices and the debt crisis: and it is increasingly suffering from an overvalued currency which for political reasons is pinned to the D-Mark.

In fairness to Mr Chirac, another element in the problem is the conservatism of his countrymen, particularly when change clashes with other cherished values of "equality" or with certain powerful lobbies.

"In France you need to follow free market policies, but without publicly saying you are doing so," says Mr Bruno Durieux, a UDF deputy and former adviser to Mr Barre.

On one score, however, Mr Chirac has done himself electoral damage—by abolishing the country's wealth tax (in the name of promoting free enterprise) and by pushing through at about the same time measures to ease redundancy procedures. These two decisions were rapidly exploited by the Socialists as benefiting the rich and undermining the protection of employees.

Even more serious errors were the legislation which recognised the introduction of selective entry to the universities and provoked student demonstrations and the proposed reforms in the French railways system that would have made pay increases more dependent on merit than on seniority.

The Government has been forced to recognise the strength of the backlash to its free market enthusiasm and has put on ice much of its future legislative programme. In what marked the major turning point in Mr Chirac's administration, the Prime Minister announced in January that his policy emphasis would be on renewing a dialogue with the unions and on social measures including more help for the long-term unemployed and improved training and apprenticeship programmes.

Mr Chirac's second term as Prime Minister—he also headed the Government in 1974-76—has thus brought out his strengths and weaknesses. His major asset is steamroller energy of a kind needed to fight a presidential campaign.

But the strains of cohabitation have also brought out the old-fashioned, city-hall politician in Mr Chirac—he is still mayor of Paris—which sees in government a means of manipulating power and patronage. He sowed distrust among his coalition partners at the outset by keeping for his neo-Gaullist RPR party an overriding number of the key government posts. He has also used unscrupulously the reorganisation of the television channels to ensure that control is transferred to political allies, notwithstanding fine words on guaranteeing their independence.

His government was equally barefaced in trying to lean on the judiciary in the trial of Georges Ibrahim Abdallah, the Lebanese terrorist, to secure him a lenient sentence.

The campaign for the presidential elections will thus open against a background in which the main ideological divisions between right and left are disappearing and in which political realignments are taking place that cross traditional boundaries. There is now a large number of ministers from both the former Socialist Government and in Mr Chirac's who would have no problem in serving in administrations led by Mr Barre, Mr Mitterrand or Mr Michel Rocard, the most likely Socialist candidate if the President does not run again.

Equally indicative of the changing kaleidoscope is the dialogue opening up—unimaginable three years ago—between former President Giscard d'Estaing, his followers and the Socialists.

The pressures for realignment are the stronger in that none of the potential candidates has sufficient support in the National Assembly to govern comfortably on his own. The presidential elections are thus likely to be followed by a dissolution of the assembly and fresh parliamentary elections in which the new President will seek to assure himself of a majority.

Because of the probable length of the campaign, none of the candidates has a interest in an early start. Mr Chirac wants time to recover his popularity. The Socialists are counting on the wear and tear of office to erode the Government's image further and to encourage divisions on the right. Mr Barre, who has no political party of his own, has not the resources to withstand a long campaign.

Mr Chirac's task remains the most difficult. He is committed to a macro-economic policy which needs time to show its fruits and demands continuing restraint over salaries. He has little leeway to stimulate investment or the economy without provoking balance of payments difficulties and problems for the franc. He would like to reshuffle his Government to freshen its image, but he is working with coalition partners who are beginning to keep their distance in the expectation of supporting Mr Barre. Nonetheless at least two presidential elections during the Fifth Republic have been won in the closing months of the campaign. And Mr Chirac is at his best on the hustings.

Men and Matters

Next year a musical?

There seems to be no end to the lengths that City of London institutions will go to serve their clients at Budget time—and gain a little free publicity on the side.

In recent years Budget Day has become the trigger for a scrum in financial services as analysts race against the clock to bring their clients the good, and the not-so-good, news first. It is the City equivalent of bagging the first grouse, or downing the first Beaujolais nouveau.

Phillips and Drew, the brokers, reckon they will score a first this week by dispatching audio tapes featuring an abridged version of the chancellor's speech which will land on clients' desks the morning after.

A video company, DBF Television, will be editing, producing, duplicating, and delivering 1,000 tapes in an all-night production spectacular.

Careful words

Bob Holder, former chief executive of Fairey, the engineering group, and, as he puts it, "a professional chairman these days" with manufacturing companies in England, Wales, Ireland, and the US, has given the game away.

To while away the time during his incessant business travelling he has compiled A Dictionary of American and British Euphemisms (Bath University Press £22.50).

He has spent his life talking and listening in board rooms. Now his relentless treatment of what the business world actually means when talking bids fair to destroy verbal communication as we know it. "The language of evasion, hypocrisy, prudery, and deceit," [illegible] a very funny collection.

It is almost unfair to pick out stray examples. But here are a few: "New economic zones—barren places to which you exile your rivals"; "Rationalise—to dismiss employees"; "Put the file in order—conceal a mistake"; "Five-fingered discount—stolen."

About 99 per cent of the phrases he quotes deal with the plain vulgar. But, as he reminds us, a gentle euphemism is intended to be a substitute for the disagreeable truth.

"Step into the Members' tea room and say that"

Tight squeeze

The National Nuclear Corporation, which builds Britain's nuclear reactors, has been busy monitoring the physical state of its technicians. It has a special job waiting for thin men.

These people—so far about 40 have been selected—will be required to squeeze between the gaps in the control rod shafts in two reactors being built at Torness, Scotland, and Heysham, Lancashire. The plants have been dogged by design problems which cause the rods to vibrate.

According to the NNC the solution is to drill a series of holes in the 89 tubes in each reactor. The tubes are only about one foot apart, however—hence the need for thin men.

The NNC will also supplement the efforts of the wiry technicians with three robotic devices costing £500,000, and [illegible] by Taylor [illegible] Chorley.

But the corporation confesses it does not yet know whether the machines or the thin men will do the better job.

Capitalist tip

Imagine the surprise in Czechoslovakia recently when Lev Zaikov, a Politburo aide of Mikhail Gorbachev, while being interviewed on television, publicly savaged the state of a factory he had been taken to visit in Prague.

"I really did not understand where I was," Zaikov began. "In a factory, a workshop, or some kind of warehouse."

He went on to describe everything was "piled up," that half the floor space occupied by sheets of metal, wire, and all sorts of equipment.

"They had supplies there for the next three years," the Soviet politician said, thus putting his finger on a chronic problem throughout Comecon. Factory managers hoard materials because they never know whether suppliers will deliver.

Zaikov said that as long as managers received money from the state they would spend it on supplies. But what would happen, he asked, if the same companies were given financial autonomy?

Warming to his subject he noted that, in capitalist countries, the "wholesale principle" applied. Managers could spend only as much on supplies as needed for current production.

"You see, they're constantly counting their money," he told the interviewer, who by now must have thought he was talking to Milton Friedman. "They're continually counting profits," Zaikov said admiringly. "If they have money, fine. If not, there's nothing to live on, is there?"

Zaikov really jolted the viewers when he added, "So now we will introduce this order—and we don't expect anything else."

The Russian guest noted in passing that his boss would be coming to Prague shortly to chat with the local leadership—which is thought to be worried stiff about his economic and political reforms.

No future

There's something vaguely worrying that a letter addressed to the London Stock Exchange careers and employment office was returned by the Post Office marked, "Gone away."

Observer

FOREIGN AFFAIRS: ANGLO-FRENCH DEFENCE

'C'est un major breakthrough'

By Ian Davidson

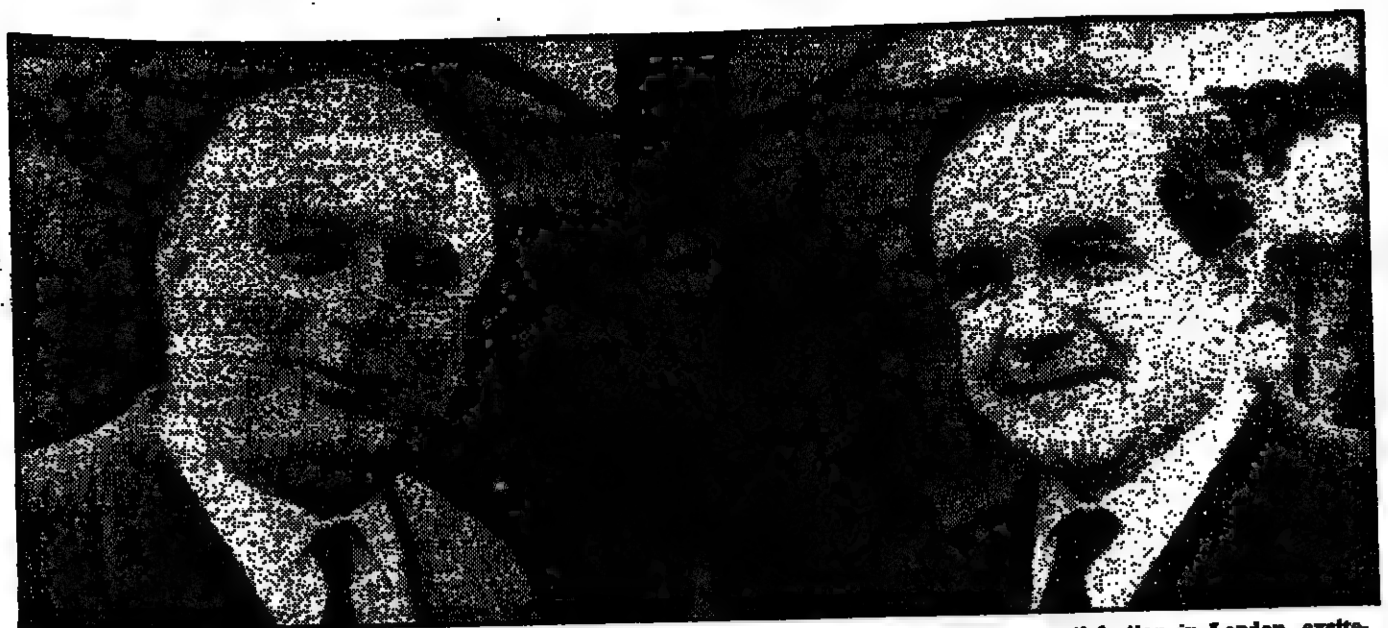
THE AGITATION over the prospect of a separate agreement on Euro-missiles, on terms which are not necessarily in Europe's interests, has underlined the uncomfortable subordination of the governments of western Europe to the superpowers. But it is yet possible that the predicament will lead to a strengthening of Europe's political solidarity, which is more important.

One reaction—let's face it, the traditional European reaction in such a case—is to go scurrying and whining to Washington to complain that Europe's interests are being neglected, or that Europe is not being consulted. Such complaints are usually 50 per cent effective: they may not succeed in changing the policy decisions taken in Washington, but they tend to ensure that the Administration pursues an assiduous policy of persuasion, information and "consultation."

This is not necessarily very satisfactory. For many years European members of the Alliance have complained that American "consultation" on major security issues was more formal than real. But on the whole they have muttered their complaints behind the backs of their hands, because they dared not offend the superpower on which Europe depends for its security.

It is possible, however, that a new mood towards the Euro-pean-American dilemma may be starting to emerge in Europe. As a result of a series of unexpected external shocks to the Alliance system going back a few years, some European governments may break out of their victim mentality and begin to respond rather more energetically—on the assumption that it is no longer necessary, nor possible, to leave it all to the Americans.

One sign of this new mood may be the reactivation of the Western European Union defence grouping. Another may be the explicit inclusion, in the Single European Act adopted by the European Community governments in 1985, of European security issues as part of their agenda for foreign policy co-ordination. A third sign was last week's little package of agreements between the British and French defence ministers, which could prove more significant, in political as well as practical terms, than either of the other two.



George Younger (right) and Andre Giraud, the British and French Defence Ministers: cautious satisfaction in London, excitement in Paris

The reason for the current stress over Euro-missiles is that Europe has ultimately no leverage and no authority on an arms control issue where, arguably, only European interests are at stake.

As their nickname proclaims, the Euro-missiles are deployed in Europe, essentially for the sake of Europe's security. Their deployment has caused enormous political controversy, and the breakdown of the defence consensus in West Germany, as well as an aggravation of the defence policy dispute between left and right in Britain. And it is in Europe that they would cause fearful havoc if ever they were let off.

Yet the European governments have, in the last resort, very little control over whether they should be withdrawn.

The central anxiety of some European governments, notably that of France, is that the withdrawal of all the cruise and Pershing II missiles (as envisaged in the zero-zero option virtually agreed by Reagan and Gorbachev at Reykjavik) would weaken the US commitment to the nuclear protection of Europe.

In fact there is no good solution to this problem from Europe's point of view. The Americans, with the support of the rest of the Alliance, have been offering a zero option on Euro-missiles ever since 1981. At that time the Soviets were manifestly refusing any kind of negotiated agreement, because they hoped to frighten the European electorates into refusing the new missiles.

But now that Moscow has reversed its position, the West's bluff has been called with a vengeance. Europe may not like a zero-zero option after all, but it now has no choice but to pretend it does. That is what Mrs Thatcher has done.

The French reaction has been more emotional, more critical and more divided. This may seem paradoxical, irrational, and at variance with long-standing French nuclear doctrines. France is not part of the integrated structure of Nato, and has not been since 1966. The new Euro-missiles were accordingly never planned for deployment in France.

But it is one of the most interesting aspects of the long unfolding of Nato's twin-track Euro-missile decision—to negotiate with the Soviet Union if possible, to deploy the new weapons if necessary—that France under President Francois Mitterrand has consistently resonated in sympathy with the political stresses experienced in the deployment countries, especially Germany, and has given remarkable public support to the principle of deployment.

Indeed, it arguable that the Euro-missile story, combined with a slightly inflamed sensibility to "the German question," has done more than anything else to awaken France, like Sleeping Beauty, from a long Gaullist dream of national independence in which the French *force de frappe* could exorcise the overwhelming superiority of the Soviet arsenal.

Manifestly, the French administration was tormented by the fear that, under the stress of the Euro-misile crisis, Germany might be seduced by the neutralist option.

At all events, in addition to a spectacular speech in the West German parliament in support of deployment, President Mitterrand also sought to reassure the Germans by activating the long-dormant defence chapters of the 1963 Franco-German Friendship Treaty, so as to provide frequent and regular bilateral discussions of defence issues at several levels.

Initially, this unfamiliar expression of French concern for German security was very well received in Germany; and over the years it has led to increasingly explicit acknowledgments by the French that their own security may indeed be in some sense conditional on the security of Germany.

Moreover, the Mitterrand administration has endorsed the idea that France should consult Germany on the use of French tactical nuclear weapons (which would be liable to hit German territory), circumstances permitting; and in addition, it has created a four-division *Force d'Action Rapide* whose primary purpose is to be able to participate in the forward defence of Germany — if the French President should so decide.

The French overtures to Germany have not worked out quite as they had hoped. I am not clear why this should be so. One story is that the Germans are emboldened to ask the only question that really matters to them: will the French be there on D-day? This is the one commitment that Paris cannot give in public.

Another story is that the logic of the Franco-German talks draws France back towards Nato, which is politically impossible. A third idea is that the Germans are satisfied with a Franco-German relationship which is largely symbolic, because of the predominance of the American relationship and the relative weakness of the French economy. Whatever the reason, there seems no doubt that the mood in Paris is one of disenchantment.

And so we come to last week's package of agreements between the French and British defence ministers, for co-operation in the procurement of defence equipment, and for collaboration on all background aspects of their independent national nuclear deterrents.

Needless to say, the importance of this development will depend on what the two governments decide to make of it. Collaboration in equipment buying has become the conventional wisdom in Europe; the test will be whether the two countries, traditionally largely self-sufficient, will really open their markets to each other.

A similar question-mark may hang over the nuclear chapter as well; it could mean a lot or nothing. Yet in *political* terms, the start of any nuclear co-operation between Britain and France should in principle carry enormous symbolic weight.

Both governments are obviously very pleased by what happened last week, but I think the French are more excited. In London the note was one of cautious satisfaction. One official said: "It is significant, within the limits of the possible; it is part of our policy of strengthening the European pillar of the Alliance, but without pushing the American pillar away. Mrs Thatcher puts the Anglo-American relationship very high."

But one French official said: "Mon vieux, c'est un major breakthrough." He could see opportunities for co-operation on many aspects of nuclear policy — communications with missile submarines, doctrine on the use of tactical nuclear weapons and arms control, where Europe's two nuclear powers have common interests.

Yet if the push and the excitement have come from France, that is only natural, because it is the French who suffer the awkwardness of De Gaulle's self-ostracism from the European defence scene. Yet it is clear that people in London are also thinking actively about how best to build on the agreements. A French alternative to Trident is ruled out; but how about co-operation on sub-strategic nuclear missiles?

Oxford's Election

A bit of archaic nonsense

By Brian Groom

I HAD not expected to go to Oxford at the weekend. It was cold; I never paid for my MA and so could not vote; the candidates seemed uninspiring and my anti-establishment animus tinged with inverted snobbery told me to keep away from an election of exaggerated importance.

Even the normally level-headed FT, however, succumbed to curiosity in the voting for a new chancellor at the 800-year-old university. So there was I (Balliol 1973-76), my wife (St Anne's 1977-80) and our two-year-old son Jack—he was greatly disappointed that Roland Rat had been barred from contesting the largely ceremonial post.

"I want to wave at people from a big car." Mr Rat had told television viewers earlier in the week. "Mouse want wave big car!" shouted the delighted child.

So why did anybody want to be there? Disarmingly batty but irate MAs were asking themselves just that as huge queues formed at the ticket office of London's Paddington station.

The man on the train was clear enough: "I'm a friend of Roy (Jenkins) from before the war. For some reason he wants the job. I can't think why." He turned out to be Sir Leo Pliatzky (Corpus Christi 1937-1940 and 1946-47), formerly permanent secretary at the Department of Trade. No, he would not have been going otherwise. "It's a bit of an archaic nonsense, isn't it?"

Oxford never lets go. After Sir Leo failed to pay his term's battels (food and lodging bill) before the war, the college pursued him until a letter reached him in the western desert as Tobruk fell, telling him he was barred from dining in hall.

Alighting at Oxford, I was struck by the fathers and sons who had come to vote together. Colleges always swear they pick students on merit, but the lucky ones chosen from outside the privileged classes are always aware how many come from a restricted social circle.

Memories returned: how beautiful Oxford's luminous yellow stone is in the sunlight; how many tramps the city attracts, more importunate in their pleas for money than in other towns.

Many graduates came to relive memories, others for more individual reasons. "I'm voting for my neighbour, Ted Heath," said Mr Richard Askew (Brazenose 1955-59), a canon of Salisbury Cathedral. "With the university looking for £11m from somewhere, it is important. He would bring a global perspective."

My thesis that the election was irrelevant was not getting much backing. "I certainly think Oxford stands for something and the world should take note," said Mr Kenneth Walker (Pembroke, wartime), a retired health administrator. "I am actually waiting for my brother's brother-in-law, who was also at Pembroke."

Even the rank outsider, Dr Mark Payne, a Midlands GP standing to modernise the university's courses, claimed the election mattered: "I have been successful because I have put on the agenda that the job should be an active, campaigning one." He got 38 votes out of 8,309.

Interest in the three main candidates: Mr Jenkins of the Social Democrats, Mr Heath, the former Tory Premier, and the Conservative historian, Lord Blake, was partly political. Thus Mr Jenkins's victory had the flavour of a by-election win.

The Tory split was obvious, but the left was split too. Labourites from my generation came to vote for former bogeyman Mr Heath to try to keep out Mr Jenkins.

There are serious issues, of course, not least the fight for funds. But how much impact would the election have on that? And why should the public take more note of an election at Oxford than elsewhere? It came 31st out of 45 last year (albeit somewhat unfairly because of a quirk in the calculations) in the University Grants Committee's ranking of performance in teaching and research.

"I'm not convinced," I told my son. He said nothing. Probably he fancies becoming a Balliol man, 2002-2005.

Letters to the Editor

Time to change course

From Sir Fred Atkinson and others

Sir, — As Chief Economic Advisers to governments from 1947 to 1979, we are greatly troubled by the prospect of continuing high unemployment. We do not accept the widespread view that it is inevitable. On the contrary, we consider that much of the increase of 2m in the number of unemployed since 1979 results from errors of economic policy.

A severe recession took place in 1979-81, far more severe than in most industrial countries. This was mainly because of increases in taxation and a régime of high interest rates, and the associated high exchange rate for sterling. Since then the economy has grown at a moderate rate, but has not made up the lost ground. Over the whole period 1979 to 1986 the growth rate has averaged under 2 per cent a year — too slow to match the rate of growth of productivity and the increase in the labour force.

This slow growth since 1979 is the reason for the high unemployment. On present policies there seems little prospect of much faster growth than in the past few years, and hence little prospect of any genuine improvement in unemployment.

The time has come for a change of course. Realistic policies exist which could lead to a major return to work without exploding inflation. The Chancellor has a real opportunity to produce a budget for jobs. Genuine and major reductions in unemployment should be the top priority for government policy.

We therefore welcome the initiative taken by Hands Across Britain to highlight the evils of mass unemployment and the fact that feasible remedies exist. We wish them every success on May 3.

(Sir) Fred Atkinson,
(Sir) Alec Cairncross,
(Sir) Bryan Hopkin,
(Sir) Donald MacDougall,
Robertball.
c/o 26, Lee Terrace,
Blackheath SE3.

Reduced to a nonentity

From Mrs S. Champness.

Sir,—Congratulations to Colin Amery (March 9) for his timely and thought provoking article "Unwelcome Mayfair development."

The interested citizen is rendered both helpless and hopeless in the face of persistent planning applications by smooth talking but avaricious developers. In spite of loud public criticism we have seen our own small — and once delightful—country town reduced to a nonentity in the name of progress in less than 20 years.

In the circumstances perhaps a little wining and dining of the Secretary of State followed by a gentle stroll through Avery Row and Lancashire Court might once again achieve the required result!

(Mrs) Sandra Champness,
Stoneraise, Plummers Plain,
Horsham, Sussex.

Stock market efficiency

From Dr I. Cooper and Professor P. Marsh

Sir,—On March 3, Clive Wolman reported at length on the paper by two labour economists, Nickell and Wadhwani, on "short-termism." This discussion paper, which has yet to be published in a refereed journal, makes strong claims that the stock market is both myopic and inefficient. If true, as Nickell and Wadhwani assert, this would have important policy implications. Certainly, policy makers are already looking seriously at these results.

Given the current spotlight on short-termism through bodies such as the CBI Task Force, this paper is clearly well timed. There is a danger however, that journalists have taken it seriously because of the current policy debate, while policy makers have taken it seriously because it has received space in the Press. The key issue, of course, is whether the paper is correct.

For at least 30 years, researchers have been debating whether the market regards £1 paid in dividends as being equal value to £1 received as capital gain. Based on the results of this vast research effort in both the US and the UK, almost no financial economist believes that paying out higher percentages of corporate earnings leads to higher share prices. An even larger body of research has focused on stock market efficiency—namely whether share prices properly reflect available information. Again, virtually no one who has looked closely at this work believes there are major or obvious inefficiencies in the stock market.

Nickell and Wadhwani's work, however, if true, would imply that the market was grossly and obviously inefficient. They argue that investors place five to 7.5 times more weight on current dividends than they do on future capital gain! Clearly, we need to ask how all of the careful and painstaking prior research over 30 years or more could have failed to notice something so obvious. For Nickell and Wadhwani's findings, if true, would be good news indeed for long-term investors, such as pension funds and insurance companies. They could make superior returns simply by buying (underpriced) low payout shares, sitting on them, and letting the future dividend come home to roost. Were it that easy!

Twyman's Law states that whenever a result is interesting or unusual, it is usually wrong. In our view, Nickell and Wadhani's work falls into this caegory. There are a number of problems with the paper. In particular, at one critical point, deep in the complex econometrics, they choose to adjust for the average level of share prices over their entire sample period. It is well known that adjustments of this sort introduce significant biases, both because of their use of average prices rather than returns, and also because of their reliance on ex-post means. The paper's results appear simply to be an artefact of this misspecification. Indeed, we have applied a similar methodology to a series of perfectly rationally derived security prices, where there is absolutely no preference for current dividends, and the anomalous results still appear.

Obviously, a flawed study can have no policy implications. Policy-makers would, however, do well to heed Richard Lambert's advice (December 31 1986) and review the large body of existing academic work which has been carried out on the workings of the capital market.

(Dr) Ian Cooper and Professor Paul Marsh.
London Business School,
Sussex Place NW1.

Regulatory activity

From the Chief Executive, Investment Management Regulatory Organisation

Sir, — I refer to the Lex column (March 11) about the publication of IMRO's rule book in which, apart from words of commendation for which we are grateful, two excellent points are made.

Regulation involves judgment. This must be so. Fund managers are all different, and the circumstances under which investments are managed can change dramatically. The IMRO rule book is of necessity detailed and prescriptive. But it is not intended as a framework of regulation fixed for all time; nor can its application be inflexible.

Regulation needs resources. Lex questioned whether IMRO would have sufficient funds to monitor members' activities effectively. This is not a matter of meeting variable demand with fixed capacity. We believe that the first requirement is to determine what level of regulatory activity is necessary and provide resources of appropriate weight; and then to keep the question under review. The 20 per cent spot checks per annum which are put forward as part of IMRO's supervisory capacity are regarded as a minimum.

John A. Morgan.
45 London Wall EC2.

Poisonous Daphne

From Mr B. Oak

Sir,—Oh Mr Constable (March 11), whatever made you experiment with Daphne Mezereum fruit? May I suggest that before you (or anyone else) tries unusual plants for palatability that you buy a copy of Macdonald's Encylopaedia of Medicinal Plants. On Daphne Mezereum it says "The plant is very poisonous if take internally and should never be ingested." The book confirms the symptoms that you described, and ends by saying: "There are several species of birds that eat the fruit without suffering any ill effect. The encyclopaedia might also prevent any other people from trying out potentially harmful plants.

Bernard H. Oak.
106 Quakers Lane,
Potters Bar, Herts.

Why pavements are scruffy

From the Director General, Cable Authority.

Sir,—Many of us may share Michael Ridd's exasperation (March 12) with the state of pavements, particularly when they are left with a temporary reinstatement following trenching by one utility or another.

Since Mr Ridd specifically mentions cable as the latest utility to require pavements to be dug up, I think that I should say that my own impression from visiting cable operations in various parts of the country is that cable trenches are usually reinstated both more quickly and to a higher standard than after other excavations.

One problem is that some local authorities—but happily not most—insist for the best of intentions on the final reinstatement being left to them. The inevitable result is lengthy delays during which the public have to endure messy and hazardous footpaths. The lesson is that cable operators should be allowed, and indeed encouraged, to make their own final reinstatement straightaway, which will usually result in a perfect surface within a matter of days of the path being opened up.

Jon Davey,
38-44, Gillingham St, SW1.

FINANCIAL TIMES

Monday March 16 1987

David Owen in Chicago

Clamour for change in the pit

"CHICAGO ain't ready for reform," opined Alderman Matthias "Paddy" Bauler to a Chicago Daily News reporter in 1955. The remark has turned out to be the outspoken politician's most enduring contribution to posterity.

Today, many an independent floor broker might choose to echo Bauler's conservatism to counter the rising clamour for change in the Chicago Mercantile Exchange's (Merc) Standard & Poor's 500 stock index futures pit.

This clamour stems from growing dissatisfaction with the quality of customer order executions in the Merc's biggest futures forum. It has been fuelled by the regular quarterly glare of publicity to which the pit is subjected when "triple witching hour" strikes.

This hectic period, when stock index futures and options and individual stock options expire simultaneously, often triggers sudden swings in the underlying stock market. It is due to recur this coming Friday.

From the vantage point of the price recorders' catwalk overlooking the S&P 500 pit, it is easy to see how the frenzied influx of orders, the volatility and the sheer congestion each contributes to making order-filling difficult.

Even on an average day, between 400 and 500 brightly jacketed bodies are compressed into an area the size of a large living room, arms flailing, voices continually at full pitch. The stanchions supporting nearby monitor screens are lagged like rugby posts.

What critics, many of whom are themselves traders, increasingly contend is that a practice known as "dual trading" also contributes significantly to pit inefficiency.

Dual trading – the right of floor brokers to trade for their own account as well as for customers – has long been something of a sacred cow in the futures markets. Proponents, like Mr Leo Melamed, the Merc's special counsel, argue that it is vital if market liquidity is to be maintained. Abuses, like the temptation for brokers (illegally) to trade ahead of customers, can be controlled, Mr Melamed maintains, by stringent enforcement of the regulations and severe punishment of wrongdoers.

The political clout of independent floor brokers (individuals who typically trade for several end-users as well as themselves) within the exchanges' hierarchies has traditionally reinforced the status quo.

Yet the contents of a special executive report, handed to Merc members as they arrived for work last Friday, confirms that – ready or not – the board of governors has decided that a degree of reform is necessary.

The report, released in response to a petition signed by several hundred exchange members seeking the prohibition of dual trading in S&P 500 futures and options, stops well short of that. Indeed, one sceptical trader in an exchange canteen was soon explaining – with sugar sachets as props – how he thought that brokers would circumvent the proposed rule changes.

But the report does contain a number of recommendations destined to make the lives of those indulging in dual trading (legitimately or otherwise) more difficult. An exchange committee is expected to recommend further measures, which may include an automation system for small orders and the transmission of orders from inside the pit, in due course.

If the petition is rejected by members, the report says, the board will seek to implement rule changes that will:

- Limit the use of the top step of the S&P 500 pit (where customer orders enter) to brokers filling customer orders and not trading for their private accounts;
- Require S&P 500 brokers trading for their own accounts to record manually the time of the trades to the nearest minute;
- Limit trading within broker groups or associations who work together and split their commissions.

At 8.10am on Friday, the immediate reaction to these recommendations was hard to gauge.

Certainly, the atmosphere in the rapidly filling S&P 500 pit was palpably sullen and niggling. But this may have had more to do with the previous night's shock defeat of the Illinois university basketball team by unfancied Austin Peay.

Anyway, the pit has never exactly had a reputation as a repository of good humour or good manners. "If I was standing next to a guy with bad breath in the S&P pit, I'd tell him to get a mint or else," said one trader with experience of both rival Chicago futures exchanges. "At the Board of Trade, I'd move to another part of the pit."

Furthermore, the glare of publicity is turning independent brokers in particular into determined recluses.

Andrew Whitley on the implications of the Pollard case for Israeli intelligence

Keeping tabs on the secret service

"NO ONE either inside or outside the (Israel) secret service really understood the principles of democratic control established ... by the democracies over their secret agencies, and no one from the Prime Minister on down could comprehend the limits of executive authority which need to be imposed upon an intelligence organisation."

It is unlikely that Prime Minister Yitzhak Shamir ever read that passage from The Spymasters of Israel, the definitive book on the country's celebrated intelligence service. And if he had, he would probably have tossed it aside contemptuously: the 71 year old former underground fighter is no great believer in public accountability.

But the case of Mr Jonathan Pollard, a former US Navy intelligence analyst, who was given a life sentence by a US court for selling American secrets to Israel, has forced Mr Shamir to think again. The case is seen as a major threat to relations between the two countries, and has prompted moves in the US to restrict intelligence sharing with Israel.

The 'Ezra' group of Poale Zion pictured in 1909 from which developed the nucleus of an Israeli intelligence service.

Confronted with undisguised US outrage at the way in which Israel has been shown by the Pollard case to have been filching piles of highly classified documents from its closest friend, Mr Shamir reluctantly agreed last week to the establishment of an independent investigative committee.

The committee is charged with examining the Government's claims that the affair was all a mistake – a rogue operation which would not be repeated, in the official apologia. But it suffered an immediate setback when one of its two nominees, a retired supreme court president, refused to participate, evidently anticipating a whitewash.

Mr Shamir, who was foreign minister in the coalition government at the time of Mr Pollard's arrest (outside the gates of the Israeli embassy in Washington) in November 1985, had made his own views crystal clear a few days earlier.

Speaking with all the ingrained dislike for publicity of the longtime intelligence operative that he was, Mr Shamir said: "What happened is usually known to those who should know – and whoever does not know should continue not knowing."

It was a classic piece of circumlocution, consistent with the Likud leaders' suspicious world view. The Mossad, as Israel's 35 year old Central Institute for Intelligence and Special Operation is better known, would approve of the sentiment.

Insiders say the Mossad disapproved of the small intelligence-gathering office within the Defence Ministry known as Lekem – the Hebrew acronym for scientific liaison bureau – which ran Mr Pollard's operations.

Israel already had half a dozen long established intelligence agencies before Lekem, a product of Mr Ariel Sharon's controversial period as Defence Minister from 1981 to 1983. Another – reporting to whom, it is not clear – simply aggravated the rivalries and overlapping areas of responsibility which have been a root cause of trouble within the community from pre-independence days.

Apart from the Mossad, which concentrates on the ever-present underground war with the Palestinians (but took time off last October to mount a major land, sea and air operation to bring a dissident nuclear technician, Mr Mordechai Vanunu, back home to face trial), Israel's intelligence family consists of the Shin Bet, military intelligence, the Foreign Ministry research department and the police special branch.

The first four swap ideas and information on a formal, daily basis. The head of Mossad, a senior figure whose name cannot be published, holds weekly meetings with the Prime Minister and his counter-terrorism adviser, currently Mr Aviram Nir, a former journalist.

The top-secret Lekem organisation, headed by Gen Rafael "Rafi" Eitan, a cloak-and-dagger agent of the old school who had served as counter-terrorism adviser to both Mr Shamir, in a previous term in office, and former Prime Minister Menachem Begin, compounded its initial disfavour by making what the Mossad – the principal external intelligence agency – regards as fundamental operational errors.

By getting found out, it severely prejudiced Israel's intimate relationship with the US – the vital underpinning of the state – and by using an American citizen, it broke the golden rule of never using indigenous Jews in foreign undercover operations. By doing so it compromised American Jews and reopened the sensitive issue of dual loyalties.

Breaking a long silence, Mr Isser Harel, the father figure of Israeli intelligence, last Friday blasted the Pollard affair as "mad, a frightening spectacle."

Now 75, the man who dominated this shadowy world for 15 years, up to 1963, running both Mossad and its older sister organisation, Shin Bet, which deals with internal security, turned the knife on Prime Minister Shamir. Pouring scorn on the Government's disclaimers about the scientific liason bureau, he commented that "everyone knew of Lekem's existence."

One plausible theory to explain why Lekem needed to be established in the first place by Mr Sharon, now Trade and Industry Minister, is that after the June 1982 invasion of Lebanon which he masterminded, the US did indeed show its disapproval by withholding from its ally sensitive information about the Arab world.

The war ended with the withdrawal of Israeli troops three years later. But Lekem continued to function, now under Mr Yitzhak Rabin, for a further five months – until Mr Pollard's arrest is said to have forced its disbanding.

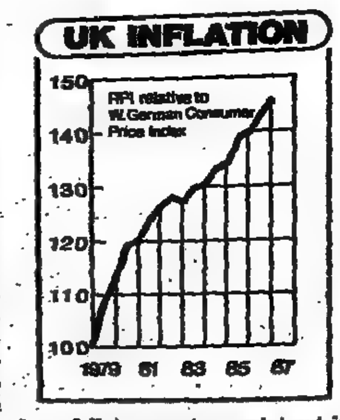
Gen Eitan was subsequently appointed by his old master, Mr Sharon, to his present position as Chairman of Israel Chemicals, the leading state-owned company. And Col Aviam Sella, who recruit Mr Pollard, was rewarded with the command of a major airbase in the south.

As for Mr Sharon, he was complaining once again last week that the US was withholding valuable information Israel needed for its security.

THE LEX COLUMN

Budgeting for a third term

Tomorrow's budget ought to be reducible to the simplest of matchstick sums. Yet it is only necessary to talk to a Conservative party apologist, a market-maker in gilt-edged and an equity salesman, to discover the maximum disagreement on whether two and two make four. In Treasury calculations, of course, the arithmetic is seldom so simple; when an election is part of the equation, however, the pressure to simplify is irresistible. In this budget, the Chancellor must try to minimise the embarrassing signs of fiscal short-termism while making the most of his chances; he needs to give an impression of strategic soundness, and have enough on offer that is electorally good for June, or October.



Perhaps not in public, but surely in private, his starting point will be a long way from that dead letter, the Medium Term Financial Strategy (MTFS). That obligatory chapter in the budget statement offers neither the Treasury nor the markets a helpful guide to the future. Moreover, the grail of a stable price level remains as elusive as ever; although UK retail inflation is still close to a cycle floor in its own terms, relative inflation continues rampant.

It can be argued that if the monetary component of the MTFS had been less flagrantly and consistently diverged from, there would not now be such a fiscal opportunity. The thing which provides the room for this year's unexpectedly large margin of fiscal adjustment is an expansion of revenues – largely the take from onshore corporate taxes. That is a consequence of a more-or-less managed five-year depreciation of sterling, combined with the investment bulge that resulted from Mr Lawson's reform of corporation tax. Those are policies that stand a long way from the puritan moral rectitude of the MTFS, and achievements which it could probably never have delivered.

For equities, pragmatism has generally been the watchword, so long as it was not too heavily laced with prudence. So far as the equity salesmen are concerned, the recent wave of high corporation tax and VAT receipts is a satisfactory platform from which to launch a budget of electoral boom or bust. To add to the pressure of consumer demand by a full 4 percentage point cut in the standard rate of income tax might be regarded as a high-risk action, but only because it would indicate without ambiguity that the election campaign had been primed to go off as soon as pay cheques had started to reflect the 25 per cent level – no later than June.

Standing back only a little from this viewpoint, even the party managers might find that a 4 point cut now appears to be worth rather less than a 2 point cut now followed by (the promise of) a 2 point cut in the first budget of a new Parliament. The promise of deferred payment, so to speak, would at least retain some flexibility in the timing of a dissolution, and offer up some evidence of caution to die-hards in the gilt-edged market.

That community provides a prop for the Chancellor's imagination, in the shape of an interest group that may, at a pinch, be thought of as favouring a policy of complete fiscal inaction in a year when it might be possible to leave taxes unchanged and achieve a zero public sector borrowing requirement. But few, if any, would wish to see Mr Lawson emulate the new Chancellor of Oxford University by having no borrowing at all, since it was a feat which Mr Jenkins was unable to repeat.

So conflicting versions of the budget sums may, after all, be reconciled with ordinary arithmetic. Holding back a 2 point cut for some future date is not only correct electoral tactics, but leaves the gilts market prospectively panting after stock that can be held out as likely to be issued at decreasing yields.

As for specific requests from London financial circles, the only one that appears to have been taken at all seriously in Whitehall is the plea to retain what is left of stamp duty rather than impose a new duty on insider dealing.

Trust management

Connoisseurs of the investment trust movement will remember every detail of last year's epic struggle for control of the Berry trust, when friends of the newly-floated GT Management joined forces with GT to ensure that it held on to its oldest management contract. From the winning side, this victory was then represented as a blow for the individual investors in investment trusts against some over-mighty pension funds, which were seeking to abuse their tax-privileged position by wading into the trust sector and obtaining control of trust assets at rather less than full underlying value.

Even then, there were others who thought that the Berry affair looked more like a blow for solidarity among trust managers, calculated to deprive the individual shareholders of the prime joy to be found in investment trust life, the moment when somebody finds a way of closing up the discount.

It was in this spirit that the Water Authority pension funds then decided to seek the winding up of US Debenture Corporation, a ponderously named trust whose board of directors had decided – in their independent wisdom – to come to the defence of Berry, and thus of GT. The point of this initiative was to make it plain to trust managers that their duty is to invest in accordance with the objectives of their trusts, not to keep each other comfortably employed. At the Water funds' instigation, US Debenture shareholders voted in January by a 4 to 1 majority in favour of considering whether to liquidate or unitise their investment.

You might think that the board would have put this proposal to the shareholders at the forthcoming annual meeting. Not a bit of it: these courses of action will be addressed only if the board's own resolution – to continue as before – is voted down. Shareholders should question whose interests are being protected.

UK shipbuilder alters strategy

BY KEVIN BROWN, TRANSPORT CORRESPONDENT, IN LONDON

BRITISH SHIPBUILDERS, the state-owned merchant shipbuilder, will today announce three new ship designs which amount to a fundamental change of direction in the corporation's marketing strategy.

The designs, for a multi-cargo products tanker, a refrigerated cargo ship, and a scientific research vessel, mark a switch of resources away from bulk shipping towards more sophisticated vessels.

British Shipbuilders believes this is a market in which it can compete successfully against lower cost yards in Japan and South Korea.

Mr Maurice Phelps, the corporation's acting chief executive, said Britain's future in merchant shipbuilding depended largely on its ability to identify precise markets, particularly for sophisticated vessels.

Mr Phelps said British Shipbuilders had decided there was "no point" competing head on with Far Eastern shipyards which could undercut the corporation by up to 40 per cent on more straightforward ships.

"We do not have any prospect of meeting those prices. This is the direction in which European shipbuilding has got to go. Inevitably it will bring us into greater competition with West German and other European shipbuilders, but we believe that can be overcome," he said.

"What we are developing is product value, instead of trying to compete directly on price. We believe we can develop products which can be attractive to customers because they have a high intrinsic value in respect of their operating ability, revenue earning capacity and efficiency," he said.

"We believe that is going to be more attractive to certain sectors of the market than those shipbuilders who can provide only price advantage."

Technical staff have been working for two years on the three new designs. Further work is being carried out on designs for a new generation of container ships.

British Shipbuilders is in the final stages of negotiations in Hong Kong with officials from the Chinese Government on the details of an order for three container ships which would increase the current order book to around 85 per cent of capacity.

However, capacity has been reduced over the past two years from 300,000 compensated gross tons (cgt) to 120,000 cgt, as part of an attempt to match potential production to realistic market prospects.

Fine Gael succession race off to busy start

By Hugh Carnegy in Dublin

THE CONTEST to succeed Dr Garret FitzGerald as leader of Fine Gael, Ireland's main opposition party, emerged into the open at the weekend as the three front runners – Mr Peter Barry, Mr Alan Dukes and Mr John Bruton – publicly declared their candidacy for next Saturday's election.

Dr FitzGerald announced his surprise resignation last Wednesday, the day after Mr Charles Haughey of Fianna Fail took over from him as Prime Minister.

Mr Barry and Mr Dukes are regarded as the favourites, although Mr Bruton said he was confident of winning a majority among the 82 Fine Gael deputies, senators and European Parliament members who have a vote in the single transferable vote ballot.

At 58, Mr Barry is the senior of the three. He was Dr FitzGerald's deputy leader and Foreign Minister and is seen as a candidate offering continuity to the party as it struggles to overcome a serious election defeat last month. But he rejects the caretaker tag, saying that Fine Gael must be "recharged."

If the party goes for a younger man, Mr Dukes, 42, is seen as the favourite. He has only been in parliament since 1981 but has built a strong following as an able minister successively for agriculture, finance and justice. He is on the liberal wing of the centre-right party and has been called "FitzGerald mark two." "That's a reasonable description," he says.

Mr Bruton, at 40, is the youngest of the three but has been in parliament since 1969. His single-minded pursuit of market-oriented economic policies as Finance Minister won him admirers, but his failure to get two budgets through parliament, in 1981 and 1987, made some Fine Gael members wary of him. He would be an asset in the party's fight to win back support lost to the new Progressive Democrats.

Meanwhile, Mr Haughey, who will see President Ronald Reagan in Washington tomorrow during St Patrick's Day celebrations, has wasted no time in getting to grips with the wayward public finances.

Britain looks for further rate cuts

Continued from Page 1

UK officials deny that the new policy involves setting specific rates for sterling against other currencies outside of which it will not be allowed to move, but they agree there is now a greater focus on limiting upward, as well as downward, shifts in the pound's value.

The budget's tax-giveaway will be combined with a series of measures designed to strengthen the Government's claim that it is helping the low-paid and the poor, and aimed at boosting Mr Lawson's image as a tax-reformer.

Among possible measures in the UK budget are increases in state pensions above those necessary to keep pace with prices, reductions in National Insurance contributions for the low-paid, and the introduction of tax concessions for profit-related pay.

Other measures may include an increase in the threshold for tax relief on home loan interest repayments, a further overhaul of capital gains tax and reductions in the higher rates of income tax.

Mr Lawson may not increase the duties on petrol and alcohol, in line with inflation over the past year in order to hold down price rises in the summer.

The economic forecasts accompanying the budget statement will predict an acceleration in UK output growth to 3 or 3½ per cent this year.

World Weather

		°C	°F
Ajaccio	S	12	54
Algiers	F	14	57
Amsterdam	R	4	39
Athens	C	5	41
Bahrain	S	21	70
Bangkok	S	34	93
Barcelona	S	13	55
Beirut	C	17	63
Belfast	C	6	43
Belgrade	F	0	32
Berlin	S	3	37
Biarritz	—	—	—
Bombay	S	31	88
Bordeaux	S	9	48
Brussels	C	2	36
Budapest	S	3	37
B. Aires	S	26	79
Cairo	F	17	63
Cape Town	S	21	70
Caracas	C	31	88
Casablanca	F	21	70
Chicago	C	5	41
Cologne	C	3	37
Copenhagen	C	-1	30
Corfu	C	8	46
Dallas	—	—	—
Dublin	F	6	43

		°C	°F
Dubrovnik	Sl	6	43
Edinburgh	F	8	46
Faro	C	16	61
Florence	S	8	46
Frankfurt	S	5	41
Funchal	F	19	66
Geneva	S	5	41
Gibraltar	C	15	59
Glasgow	F	8	46
Guernsey	S	6	43
Helsinki	C	-3	27
H. Kong	C	22	72
Innsbruck	S	4	39
Inverness	F	4	39
Islamabad	R	16	61
Istanbul	F	1	34
Jakarta	C	33	91
Jersey	C	7	45
Jo'burg	F	21	70
Lima	S	26	79
Lisbon	S	16	61
London	C	9	48
Los Angeles	F	18	65
Luxembourg	S	3	37
Madrid	S	11	52
Majorca	S	13	55
Malaga	F	16	61

		°C	°F
Malta	F	13	55
Manchester	C	7	45
Manila	S	35	95
Melbourne	S	16	61
Mexico City	S	25	77
Miami	S	21	70
Milan	S	6	43
Montreal	C	2	36
Moscow	S	1	34
Munich	S	3	37
Nairobi	F	29	84
Naples	S	9	48
Nassau	—	—	—
New Delhi	S	27	81
New York	C	8	46
Nice	C	11	52
Nicosia	—	—	—
Oporto	S	14	57
Oslo	Sn	-2	28
Paris	S	6	43
Peking	S	8	46
Prague	S	1	34
Reykjavik	C	0	32

		°C	°F
Rhodes	S	10	50
Rio de J'o	C	29	84
Rome	S	10	50
Salzburg	S	4	39
San Francisco	F	14	57
Seoul	S	8	46
Singapore	R	31	88
Stockholm	S	-3	27
Strasbourg	S	5	41
Sydney	S	23	73
Taipei	R	20	68
Tangier	C	15	59
Tel Aviv	C	14	57
Tenerife	S	22	72
Tokyo	C	11	52
Toronto	F	3	37
Tunis	S	13	55
Valencia	C	13	55
Venice	S	5	41
Vienna	S	0	32
Warsaw	S	2	36
Washington	—	—	—
Zurich	F	2	36

Readings at mid-day yesterday:
C-Cloudy D-Drizzle F-Fair Fg-Fog H-Hail R-Rain S-Sun Sl-Sleet Sn-Snow T-Thunder

Outboard motor prices to rise

Continued from Page 1

manufacturers returned to the Commission saying that the price undertakings were being ignored.

Sales by EEC producers dropped by 28.8 per cent between 1982 and 1985, according to International Boat Industry, a London-based trade publication. The European producers were hoping that anti-dumping duties would be levied on the Japanese imports. However, after lengthy investigations in Japan by EEC inspectors, the Commission called for price increases instead of duties.

A Japanese Government official yesterday said that the Japanese manufacturers were privately relieved at the EEC decision.

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SECTION II – COMPANIES AND MARKETS
FINANCIAL TIMES
Monday March 16 1987

INTERNATIONAL BONDS

Professionals spark fresh floater collapse

LAST WEEK's renewed crisis in trading of floating rate notes (FRNs) which has now *spread from* the perpetual to the dated sector, revealed a market in deep disarray and increased calls for a reform of trading practices to restore investor confidence, writes Clare Pearson in London.

The fresh collapse in prices appeared to be *driven almost* entirely by professionals. Although the *failure* of investors to participate in the market has contributed to *its loss of* confidence, dealers said retail selling last week was negligible.

Prices fell by *1½ points in a day*-to-day movement rarely seen in the FRN sector, where maintenance of capital value is usually more assured.

Market-makers often lost sight of the comparative value of the FRNs in their rush to lighten positions and there were many anomalous price movements. The volatility of some shorter-dated bonds was almost as great as that of longer-dated instruments, for instance. This would not occur in a more stable market.

Lack of discipline among market-makers was the main reason *cited* for last week's decline, although concern about the effects of the Brazilian debt problem on international banks must have played a part in triggering the debacle. Issues for US banks were particularly *hard* hit.

Meanwhile, issues for Canadian banks came under pressure following the *announcement that Dome* Petroleum, the troubled Canadian energy company, was asking bankers for a restructuring of its obligations, and issues for Ireland were *also marked sharply lower because* of concern about the country's budgetary deficit.

"But these matters were not the fundamental problem," one dealer *said*. "They were just a way of finding an excuse to sell."

The chaotic conditions in the market were shown by the fact that even issues for sovereign borrowers such as the UK – which is viewed as a first class credit – were moving up and down in price by about 20 basis points a day.

At the close on Friday, a 20-year issue *for Citicorp* had lost about 2 points in price during the day and yielded about 65 basis points over London interbank offered rate (Libor). Meanwhile, an issue for Denmark was *yielding* about 45 basis points over Libor.

Yet it was hard for dealers to buy bonds on the basis that they looked cheap at these levels, since the breakdown of liquidity in the market *cast doubt on their ability* to sell them later.

By *Friday* afternoon, many of the *smaller players* in the market were refusing to take calls from other dealers. "You feel as if there's a shotgun at the other end of the telephone," one dealer said. "Every time you make a price your bid gets hit by another dealer."

Some felt that an agreement to deal through brokers, rather than directly between market-makers, might be a means of removing the fear from the market. This would mean that discrepancies between prices would be readily spotted by dealers, since bid and offer spreads would appear on brokers' screens.

Although brokers play an important role in the Eurobond new issues market, little dealing is done through them in the secondary market.

The effects of a breakdown in liquidity have already been seen in the perpetual *FRN market*, which was quiet amid last week's turmoil, largely because of the extent to which turnover has dwindled already.

Many dealers said they had resumed trading perpetuals on firm prices after a temporary reversion to trading on an indicated price basis a few weeks ago. However, no-one *has been expecting* the market to become actively traded again, making it very difficult for investors unlucky enough to be trapped to liquidate their loss-making positions.

Some dealers will fear for their jobs if the tumult in the FRN sector continues, *since it will become* harder for firms to justify the huge overheads involved in maintaining a commitment to the market.

For the moment, dealers are pinning their hopes *on a reappearance* of Japanese bank investors at the beginning of their financial year in April. Although the recent behaviour of market-makers may make them *reluctant to return*.

EUROMARKET TURNOVER
Turnover ($m)

	Straights	Conv	FRN	Other
Primary Market				
US$	2,332.1	155.4	6.8	4,082.0
Prev	3,294.2	180.5	728.3	4,808.9
Other	2,600.0	38.8	25.4	438.6
Prev	3,651.2	1,072.6	10.8	109.2
Secondary Market				
US$	21,634.5	1,777.3	14,205.0	5,242.9
Prev	19,407.3	1,408.4	19,578.4	5,600.6
Other	10,225.7	1,082.5	2,234.6	8,959.7
Prev	10,702.2	724.0	2,029.2	8,133.7

	Cedel	Euroclear	Total
US$	15,110.0	34,316.6	49,426.6
Prev	16,257.4	38,842.7	55,100.1
Other	13,227.0	21,748.5	34,975.5
Prev	13,768.4	21,636.5	35,404.9

Week to March 12 1987 *Source: AIBD*

Hope for end to downward spiral in syndicated loans

AS BOND traders clenched their teeth last week amid the deepening debacle in the floating rate note market, that *diminishing breed of* banker inhabiting the loan syndication departments of international banks was taking a more relaxed view, writes Stephen Fidler, in London.

The "securitisation" of global financial markets is nowhere more evident than in the way the FRN has eclipsed the syndicated credit in recent years as the main vehicle for raising large amounts *of capital*.

Now, the belief is gaining ground that the FRN market's current difficulties might be a catalyst for important changes in the syndicated loan market and for a reversal of its ebbing fortunes.

A number of signs have already emerged of a growing resistance to further cuts in margins and fees on syndicated loans, which have endured a three-year downward spiral.

The most recent evidence of this was the difficulty the market had in swallowing a $1bn refinancing for Electricité de France, the French state electricity utility. Other deals, including, for example, several on behalf of Italian borrowers, have also *faced significant obstacles*.

It *seems unlikely* that many borrowers will be able to return to the market in the near future to borrow at the *kind of rates* to which they have become accustomed in recent weeks.

Denmark and the UK both borrowed on the FRN market last summer at rates as tight as ⅛ percentage points below London interbank bid rates (Libid) – less than the *cost of funds* for the banks.

On Friday, the price of that 10-year Denmark issue had dropped so much that it was yielding 45 basis points above London interbank offered rates (Libor). On that basis, it would be *far* cheaper for the country to borrow in the syndicated loan market than to issue *another* floater.

From the point of view of the banks, particularly those which do not stand to earn fees for arranging a credit, there is little point in joining a syndicated loan when they can pick up the same credit, in a more tradeable *form* and *at a* much higher margin, through the FRN market.

This *could provide* the market with a mechanism through which the rise in margins on loans takes place. Two things might stand in the way – a soundly based recovery in the FRN market or the imperative for syndicated loan departments to be seen as active.

It *also seems more than a slight* possibility that the adjustment might take place after a couple of tightly priced deals have been brought to market and sunk without trace.

So far, there has been little impact on the loans market, partly because the *communication of price* information is far slower than in the securities markets. "If you bring a poor deal to the bond market, you know the same afternoon. If you bring a dog to this market you might not find out for two or three weeks," said one banker.

There is also a *different* philosophy at work in the two markets. In the bond markets, *few* investors hold issues to maturity, but that is still the role, rather than the exception, in the loan departments of most banks.

Chase Manhattan, *after* consultation with the borrower, increased its big refinancing deal for Sweden. The refinancing cut the size of the standby credit from $1.8bn to $1.2bn but oversubscription led to an increase to $1.4bn. There were some drop-outs but 46 banks joined in.

Chemical and Crédit Lyonnais Nederland *brought a* $145m loan facility for the Philips and Du Pont Optical Company, a joint venture of the Dutch and American industrial giants to develop and produce compact disc technology.

It comprises a $70m multi-currency, three-year loan tranche with six month *availability*, with commitment fee of 7½ basis points and a margin of 17½ basis points, and a $75m revolving credit with similar margins, except that if more than 50 per cent is used there is a five basis point utilisation fee.

W. German turnover tax move criticised

By Andrew Fisher in Frankfurt

THE WEST GERMAN Government's decision to keep the stock exchange turnover tax, after earlier promising to drop it, will severely weaken the country's prospects as *an international financial centre*, according to the Association of German Stock Exchanges.

Both German and foreign banks will now reconsider the scope of *their trading activities in Germany*. Mr Rüdiger von Rosen, executive director of the association, said. Fewer foreign banks would open up in Germany, while domestic banks would shift operations abroad.

The turnover tax (*Börsenumsatzsteuer*) raised around DM 750m ($405m) last year, and Mr Gerhard Stoltenberg, the Finance Minister, decided that revenues were still needed from this and the levy on new share issues.

Together, the taxes *yielded about* DM 1.2bn in 1986. In the coalition talks after the January re-election of the government led by the Christian Democratic Union (CDU), of which Mr Stoltenberg *is* a member, the abolition of the turnover tax was not mentioned as part of a DM 45bn *tax reform* package.

Mr von Rosen said the association had reacted to the news with "great *disappointment*." The tax is levied on secondary trading in stocks and bonds and has thus encouraged this activity to shift to such centres as London and Luxembourg.

The government had repeated in its annual economic report in January that it intended to end the tax, so stock exchanges and banks had invested millions of marks in staff and technology *for* increased securities business.

If the tax had been dropped, the increased business in securities would have led to far greater revenues for the government through other taxes, he added.

Italy sets rules for merchant banks

BY ALAN FRIEDMAN IN PALERMO

THE BANK of Italy has *announced* a set of rules to govern the formation of homegrown merchant banks.

The central bank's set of criteria for the *establishment* and *operation* of merchant banks follows last month's historic decision by the Rome *Government's* inter-ministerial cabinet committee on credit and savings to allow *Italian* commercial banks to form merchant bank subsidiaries which may take *equity stakes in companies*.

The key rules laid out by the Bank of Italy are:

- the minimum capital requirement for the new merchant banks is L50bn ($38m).
- *they may invest* no more than 20 per cent of their total capital in any single venture.
- the equity stakes taken *in companies* must be minority shareholdings (although percentage limits have not been set).
- debt may not exceed twice the level of shareholders' funds.
- *direct lending to companies* (as opposed to underwriting a syndicated credit or bond issue) is prohibited.

The central bank said it hoped the *rules would* encourage the new merchant banks, which are to be known as "financial intermediation companies" under Italian law, to spur the growth of small and medium sized businesses.

The merchant banking reform which is embodied in last month's *cabinet-level decision is seen* by bankers as an important deregulatory measure. Already the Banca Commerciale Italian (*BCI*), Italy's second biggest bank, has responded by *announcing* the formation of a new merchant bank venture with Paribas of France.

The idea is to further develop Italy's growing financial market with institutions which can engage in mergers and acquisitions, corporate finance, the taking of equity stakes in small companies, the listing of unquoted companies on the bourse and related activities.

General Mills extends recovery in earnings

BY JAMES BUCHAN IN NEW YORK

GENERAL MILLS, the food processing and restaurant group, has reported a 27 per cent increase in third-quarter earnings, extending the *recovery in profitability* that was set in train by a radical restructuring completed a year ago.

The Minneapolis group reported earnings of $56.9m, or 64 cents a share, in the quarter to February, against $44.9m, or 50 cents a share, in the same three months of 1986. Sales *revenues increased* by 18 per cent to $1.3bn.

Mr Bruce Atwater, chairman, said operating profits, which advanced 31 per cent in the third quarter, would continue their momentum in the quarter to May. Return on equity, which was 31.6 per cent in the third quarter, would reach another record for the year despite some likely special charges.

General Mills *spun off its toy and* fashion businesses in 1985 and concentrated on its basis packaged food business and smaller restaurant and specialty retailing divisions.

The food group, which includes such brand names as Betty Crocker, cake mixes and Big G cereals, saw growth in volume of 11 per cent, leading to earnings growth of 37 per cent to $107.1m.

Earnings were down 5 per cent to $17.8m at the restaurant group, which operates 591 outlets.

INTERNATIONAL CAPITAL MARKETS

UK GILTS

Post-Budget bull market likely to be more frothy

THERE APPEARS to be little doubt that Mr Nigel Lawson's Budget tomorrow will be hailed not only as a great success in financial markets but as a confident first shot in the Government's campaign to win a third term in office.

As long as the Chancellor delivers tax cuts and a cut in his projection for public borrowing, interest rates should fall and building societies would be regarded as churlish not to follow with a cut in mortgage rates. All that should keep the City happy.

But it is the political gloss put on his performance which will probably set the underlying tone of the UK Government bond market more than anything else. The Conservative party's showing in opinion polls in the next few weeks is likely to be one of the key factors—the other being the performance of sterling—in the investment decisions of potential overseas buyers of gilts.

A survey carried out by Greenwell Montagu Gilt-Edged in mid-February on inflation expectations was remarkable for its finding that not a single institution believed that Labour would win an absolute majority. The overwhelming conclusion was that the Conservatives would win with an overall majority. No wonder the market is so strong.

Domestic institutions (and the Bank of England) have been more cautious than foreigners about prolonging the current rally which has already discounted an awful lot of good news.

However, their caution has worked to their disadvantage as massive funds have flooded in from abroad. The extreme volatility of trading and large price movements offer clear evidence of the extraordinary power of international opinion to move the gilt market which, after all, is comparatively small compared with the global volume of funds available for investment.

Some caution may be justified about prospects for the gilt market after the Budget. On technical grounds, it appears that both the currency and bond markets have been overbought and there must be large scope for taking profits (as became clear on the foreign exchange market on Friday).

There may have been some genuine re-rating of prospects for the British economy, yet there has also been a great deal of short-term speculative trading of both markets based on the relative attraction of yields on bonds and interest rates backing sterling.

There is also a political risk. The market wants an early election which would reap the benefits of a good Budget and disarray in the Labour party. If the election were to be delayed, there would be more risk of something going wrong and nerves would run high. At current levels, there is no political risk premium left.

These are the cautious arguments. There are, however, some compelling factors working in favour of the gilt market, not least the funding position.

Although there is a heavy schedule of redemptions next year, the Chancellor is widely expected to announce a lower borrowing requirement tomorrow, possibly as low as £5bn, which at one stroke eases funding pressures. Not only that, but there are already £2bn worth of calls in place in April and May. There has probably also been some buying in of stocks due for redemption in 1987-88.

It is difficult to tell exactly where all this leaves the gross funding requirement. On the same data, economists have come up with estimates of gross monthly funding of anywhere between £500m and £900m. However, this is still below the sort of funding requirement seen in recent years and leaves the market technically very well placed.

In these heady and politics-dominated times, it is almost impossible to predict where the market will go from here. Economists at Goldman Sachs guess that the next 50 basis point move in yields is more likely to be downwards than upwards as the market becomes increasingly certain that the Government will go to the polls early and win. "In other words, there may be more life in the gilts bull market after the Budget, but it is likely to be increasingly speculative and frothy," they say.

Janet Bush

US MONEY AND CREDIT

Traders look abroad for excitement

THE US credit markets continue in the doldrums and traders are being forced to look overseas—for example, to the UK—for some speculative excitement. US bond prices are stuck in a narrow trading range and some anlaysts are predicting that this will continue well into the second quarter.

For the third week in a row, yields on long-term US government paper have hovered around the 7½ per cent mark, and short-term interest rates have stayed remarkably stable. The signals coming out of the US economy continue to be confused by the impact of the tax reform measures but there is a growing belief that the first-quarter growth rate may be somewhat faster than expected. So far this has not presented much of a problem for the financial markets, which continue to hope that US interest rates will edge lower at some stage, before they head higher.

An unexpectedly large 4.1 per cent jump in the February retail sales figures failed to upset the market, partly because the monthly money supply figures were judged to be better than expected, and the latest figures on industrial production and producer prices were weaker than expected.

Many investors continue to believe that the US credit markets promise little scope for handsome profits over the next few months—unlike the US equity markets and some overseas markets. This is slowing the flow of funds into the market at a time when the pace of new corporate debt issues is running more than a third above the levels in the opening months of 1986.

Chrysler Corporation underlined the changing mood in the investment community when it disclosed last week that its pension fund, which moved heavily into the bond market when yields were roughly double what they are today, planned to sell $1bn of its $3.5bn bond portfolio and invest the money in the equity market.

Meanwhile, Smith Barney notes in its latest credit market comment that many of the corporate issues which came to market last week were priced "much too aggressively" and as a result several had a poor reception.

One of the most aggressive issues was $200m of 10-year notes for Rockwell International which was carried out by Daiwa Securities America. Along with Nomura Securities International and UBS Securities, Daiwa has emerged as an aggressive bidder when new corporate issues are offered through competitive sales, and the latest issue-rated Aa2 by Moody's—was priced to yield 7.68 per cent, or some 45 basis points above the comparable 10-year US Treasury issue.

The City of Tokyo put in a rare appearance in the US capital markets, raising $100m of 10-year bonds on a coupon of 7.5 per cent and priced to yield 7.57 per cent, or 35 basis points over the comparable Treasury issue. The bonds are guaranteed by the Japanese Government and carry an AAA rating from both leading US credit rating agencies.

The biggest offering of the week, undertaken by First Boston for Allied Stores, raised $700m of 11½ per cent 10-year senior subordinated debentures and $200m of 10¼ per cent five-year senior notes. The latter was rated B2 by Moody's and the longer-dated issue was rated B3. Both issues were priced at par.

First Boston, which also raised $250m of cumulative exchangeable preferred stock for Allied Stores, made headlines during last autumn's takeover battle for Allied by agreeing to give Campeau, the Canadian bidder, a $1.8bn bridging loan to win control. Until recently it has been rare for investment banks to lend clients money to finance their takeover battles and the latest offering marks the refinancing of the earlier loan.

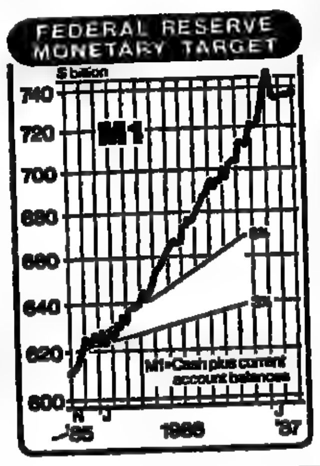
Among other corporate issues last week, Anheuser-Busch, the world's biggest brewer, raised $150m of 30-year debentures on a yield of 8.59 per cent.

* * *

The following economic statistics are due to be released this week, along with the market's median expectations as surveyed on Friday by Money Market Services of Redwood City, California.

- February housing starts (due Tuesday 8.30 am EST) are expected to have declined slightly from January's 1.8m units but to continue at a relatively high annualised rate of 1.75m units. Estimates range from an annualised rate of 1.65m to 1.90m and analysts caution that the figure could be higher than expected because of the unseasonally warm weather.
- Personal income figures for February (due Thursday 10 am EST) are expected to have rebounded from January's depressed levels helped by firmnes in wages and salaries. The median forecast is for an increase of 0.7 per cent, with estimates ranging from minus 0.5 per cent to plus 1.2 per cent. The latest personal consumption figures for February, and revisions to the depressed January data, should give a clue to the pace of US economic expansion. They are forecast to show a rise of 1.5 per cent, with estimates ranging from plus 0.5 per cent to plus 2.2 per cent.
- The weekly money supply figures (due Thursday 4.30 pm EST) are expected to show a rise of $2.5bn with estimates ranging from a fall of $1bn to an increase of $5bn. Last week M1 fell by $600m to a seasonally adjusted $738bn.
- The following are some of the debt issues which are expected to be brought to market shortly, according to First Boston's latest corporate bond and stock calendar: $100m GMAC notes, due 1994; $100m Black & Decker notes, due 1997; $125m Marine Midland Bank subordinated capital notes, due 1997; $100m Motor Wheel Corporation senior subordinated notes, due 1997; and $250m of Union Carbide senior subordinated notes, due 1994.

William Hall



US MONEY MARKET RATES (%)

	Last Friday	1 week ago	4 wks ago	12-month High	12-month Low
Fed Funds (weekly average)	6.20	6.08	6.22	11.34	5.71
Three-month Treasury bills	5.62	5.64	5.65	6.58	6.01
Six-month Treasury bills	5.61	5.56	5.67	6.65	5.06
Three-month prime CDs	6.20	6.13	6.20	7.23	5.48
30-day Commercial Paper	6.18	6.08	6.15	7.70	5.55
90-day Commercial Paper	6.10	6.05	6.10	7.13	5.45

US BOND PRICES AND YIELDS (%)

	Last Friday	Change on week	Yield	1 week ago	4 wks ago
Seven-year Treasury	100	+ ⅜	7.00	6.71	7.10
20-year Treasury	117⅝	+ ⅝	7.63	7.65	7.77
30-year Treasury	100	+ ½	7.50	7.51	7.58
New 10-year "A" Financial	N/A	+ ⅝	7.95	8.00	8.15
New "AA" Long utility	N/A	—	8.80	8.60	8.76
New "AA" Long industrial	N/A	− 1⅛	8.55	8.45	8.63

Source: Salomon Bros (estimates).

Money Supply: In the week ended March 2 M1 fell by $600m to $738bn.

NRI TOKYO BOND INDEX

December 1983 = 100	12/3/87	Average yield (%)	PERFORMANCE INDEX Last week	12 wks ago	26 wks ago
Overall	137.50	4.18	136.86	131.53	128.39
Government Bonds	138.87	3.79	137.94	132.39	129.35
Municipal Bonds	138.13	4.64	137.59	131.85	128.10
Government-guaranteed Bonds	139.16	4.68	138.61	132.52	126.66
Bank Debentures	132.21	3.90	132.06	127.83	125.29
Corporate Bonds	135.93	5.15	136.50	130.09	127.35
Yen-denominated Foreign Bonds	136.24	6.26	136.06	132.64	129.45
Government 10-year†	—	4.93	5.08	5.39	5.45

† Estimated par yield.

Source: Nomura Research Institute.

FT/AIBD INTERNATIONAL BOND SERVICE

US DOLLAR STRAIGHTS	Issued	Bid price	Chg. on week	Yield
ABN Bank 8½ 91	150	103⅝	0	7.57
AHFC O/S Fin 11¼ 94	100	103	+0⅛	11.10
AIDC 11 89	75	106½	0	7.17
Alcan Australia 8½ 89	25	0		
Alcoa Australia 11 92	80	106½	0	9.37
American Expa 12¾ 88	150	108⅝	−0⅛	6.90
Asian Dev Bk 11⅝ 93	100	116⅛	−0½	8.57
Australia 11 90	100	110¾	+0⅛	7.69
Australia 11¼ 00	100	117¾	0	8.90
Austria Zero 95	100	51⅞	−0⅛	8.31
Bank of Montrl 14½ 87	100	101¼	−0⅛	7.96
Bank of Tokyo 8⅝ 96	100	102⅞	0	8.03
Bank of Tokyo 11 90	125	110	0	7.21
Bank of Tokyo 11⅞ 90	100	114⅛	−0⅛	7.37
Bank of Tokyo 13⅞ 89	100	115⅞	−0⅛	7.07
Barclays Jersey 10⅝ 90	250	108⅝	−0⅛	7.30
Barclays Jersey 10⅝ 95	250	114¼	−0⅛	8.21
Belgium 7½ 97	250	98⅞	−0⅛	7.51
Belgium 7⅜ 91	300	100⅞	−0⅛	7.49
Betawest Prop 7⅝ 93	150	98⅜	−0⅛	7.77
BFCE 7¾ 93	100	97⅞	−0⅛	7.89
Bk Nova Scotia 13⅝ 87	100	101¼	−0⅛	7.83
BNP 8¾ 93	[illegible]	103⅞	0	8.02
BNP 13½ 89	[illegible]	114⅞	−0⅛	7.12
BP Capital 9⅝ 93	150	107⅞	0	7.91
BP Capital 11⅞ 92	150	117⅛	−0⅛	8.22
Br Col Hydro 10⅝ 88	200	103⅝	+0⅛	6.67
Br Col Hydro 11¾ 93	200	119⅛	−0⅛	7.83
Campbell Soup 10½ 95	100	113	−0⅛	8.28
Canada 10⅝ 89	500	106⅞	0	6.71
Canada 11½ 90	500	111⅞	−0⅛	7.00
Canadn Imp Bk 16⅝ 91	100	115	−0⅛	12.22
Can Natnl Rail 14⅝ 91	100	113	−0⅛	10.91
Canadian Pacific 7½ 95	100	95	0	8.13
Canadian Pacific 10⅝ 93	100	109	−0⅛	8.90
Can Pacific Secs 15 89	75	115½	−0⅛	7.68
Canadian Wheat 11¼ 90	50	100⅝	−0⅛	10.06
CCCE 7⅝ 91	113	99⅞	0	7.31
Centrust S&L 0 10	1.2bn	12	0	9.70
Chevron USA 12⅝ 89	500	0		
Citicorp 11¾ 92	100	107⅞	−0⅛	8.76
Colgate-Palmolive 9½ 96	100	106⅜	−0⅛	8.19
Com Bk Australia 10 93	100	110⅞	−0⅛	7.82
Com Bk Austria 12⅝ 89	100	112	−0⅛	7.17
Continental Grp 11½ 93	75	102⅞	−0⅛	10.82
Crocker National 10½ 89	75	103	0	7.41
Dart Kraft A 10⅝ 96 SW	100	107⅝	+0⅛	8.84
Denmark 0 98	250	38	−0⅛	8.56
Denmark 7 88	1.0bn	100⅞	0	8.80
Denmark 10⅝ 90	100	102⅞	−0⅛	8.49
Denmark 11½ 92	100	119⅛	0	7.40
Denmark 13 92 XW	100	101	0	12.86
Denmark 13⅝ 91	100	121¼	0	7.43
Deutsche Bk Fin 13½ 89	200	113⅞	−0⅛	7.23
DKB Asia 8⅝ 91	100	102⅝	−0⅛	7.49
Dutch St Mines 11⅞ 91	150	104⅝	−0⅛	9.84
ECSC 7 89	75	100⅝	+0⅛	6.73
ECSC 9⅝ 96	100	102	−0⅛	7.94
EDF 10⅝ 95 A	100	105⅝	−0⅛	8.83
EEC 9⅝ 90	350	105⅝	0	7.79
EIB 7⅝ 93	150	100⅝	−0⅛	7.66
EIB 8½ 88	100	101	0	7.25
EIB 8⅝ 88	50	100⅝	0	8.12
EIB 8⅝ 93	100	101⅝	−0⅛	8.39
EIB 9⅝ 93	100	101⅝	−0⅛	8.77
EIB 10⅝ 94	200	112⅝	−0⅛	8.02
EIB 11 91	125	113⅝	−0⅛	7.11
EIB 11⅝ 91	75	111⅞	−0⅛	8.05
Eksportfinans 0 94	350	55⅞	−0⅛	8.20
Elec de Fr 14⅝ 89 XW	200	114⅝	0	8.57
Eli Lilly 10⅝ 90	150	112⅝	−0⅛	7.36
Emerson Elec 9⅝ 96 SW	100	107⅝	0	8.36
ENEL 10 95	400	108⅝	+0⅛	9.23
Engelhard Corpn 11⅝ 92	150	108⅝	−0⅛	9.38
Eurofima 9⅝ 96	100	108	0	7.97
Eurofima 12½ 89	75	112⅝	−0⅛	7.08
Export Devel 9⅝ 89	300	105	0	7.27
Export Dev Corp 10 90	100	108⅝	−0⅛	7.10
Export Devel 10⅝ 88	100	103⅝	−0⅛	6.54
Export Devel 11⅝ 89	150	107⅝	0	6.86
Export Devel 12 89	100	111⅝	−0⅛	6.98
Farm Credit Corp 7½ 93	100	99	−0⅛	7.69
Finland 12⅝ 94	75	128⅝	−0⅛	7.73
Ford Motor 10½ 93	150	105⅝	−0⅛	8.44
Foramerks 8⅝ 91	100	104⅝	−0⅛	7.46
Fuji Bk & Tst 7⅝ 91	100	100⅝	−0⅛	7.84
Fuji Intl 10⅝ 90	100	109⅝	−0⅛	7.26
Gaz de France 12⅝ 93	175	118	−0⅛	8.37
Gen Elec Cred 9⅝ 91	100	104⅝	0	8.50
Gen Elec Cred 10⅝ 90	300	105⅝	−0⅛	8.59
Gen Elec Cred 12 94	200	114⅝	−0⅛	9.29
Getty Oil 14 89	[illegible]	100	−0⅛	13.94
GMAC 10 88	200	102⅞	−0⅛	6.82
GMAC 10 92	250	107⅝	0	8.21
Grem Finance 13⅝ 89	100	108	0	9.46
Gulf Canada 14⅝ 92	100	113⅝	−0⅛	11.04
GZB 14 91	100	120	−0⅛	8.24
Hiram Walker 16 89	75	114½	−0⅛	7.76
Holl Air Fin 12⅝ 91	100	105⅝	0	10.46
IBM 9⅝ 88	200	102⅞	0	6.86
IBM Credit 10⅝ 88	300	103⅝	−0⅛	8.20
IBM Wrld Trade 12⅝ 92	200	112⅝	−0⅛	9.27
IC Industries 12 90	75	107½	−0⅛	9.12
Inco 9 92	100	98½	−0⅛	9.33
Ind Bk Japan 10⅝ 92	100	109½	0	8.29
Ind Bk Japan Fin 8 88	150	101¼	−0⅛	7.73
Int-Amer Dev 12⅝ 91	150	120	−0⅛	7.47
Int Paper 12 91	75	105⅝	0	10.34
IPF 12½ 92	100	109½	−0⅛	10.01
Italy 8⅝ 91	220	104⅝	−0⅛	7.44
Italy 9⅝ 96	150	106⅞	−0⅛	8.02
ITT Credit Corp 10½ 90	75	106½	−0⅛	8.14
Japan Air Lines 6⅞ 96	150	100	0	8.12
Japan Dev Bk 10 92	100	106⅞	−1	8.37
Kellogg Co 10⅝ 90	100	106⅝	−0⅛	8.10
Liberty Mtual 8½ 96	150	102⅝	−0⅛	8.06
Lockheed Corpn 7⅝ 88	150	100⅝	0	7.11
Long Term Cred 10⅝ 90	100	109⅞	−0⅛	7.18
Long Term Cred 11 90	100	109⅞	−0⅛	7.23
Long Term Cred 11⅞ 89	100	109⅝	0	6.88
Manitoba 7½ 96	150	96½	0	8.05
Manitoba 8⅝ 91	125	104⅝	−0⅛	7.34
Manitoba 13⅝ 89	100	114½	0	7.25
Marks & Spencer 8⅝ 96	150	101⅝	−0⅛	7.98
Marubeni 11⅝ 91	100	112⅝	−0½	8.20
Mercedes Credit 7⅝ 93	100	98⅝	+0⅛	7.58
Mercedes Credit 7½ 93	100	101⅝	−0⅛	7.25
Merrill Lynch 8 93	200	100½	+0⅛	7.88
Merrill Lynch 9 88	200	103½	−0⅛	6.95
Mer Lynch O/S 10⅝ 90	200	108⅝	−0⅛	7.42
Mitsubishi Cp 10½ 92	100	108⅝	−1⅛	8.42
Mitsubishi Est 10⅝ 92	50	107½	−2	8.59
Mitsbshi Fin HK 11⅝ 90	100	111⅝	−0⅛	7.25
Mitsbshi Fin HK 12⅝ 91	100	116⅝	0	8.28
Mitsui Tst Fin 12 91	100	112⅝	−0⅛	8.07
Mobil Corp 10⅝ 90	200	107	−0⅛	7.68
Morgan Gty Tst 12⅝ 89	150	111⅞	−0⅛	7.12
Morgan J P 11⅝ 92	100	108½	0	9.06
Motorola 12 94	75	117⅞	0	8.72
Mount Isa Fin 13⅝ 87	100	101¼	−0⅛	7.96
Nat West Fin 11⅝ 92	150	117⅝	+0½	7.72
Ned Gasunie 11¼ 90	75	111	0	7.63
New Zealand 7⅝ 89	300	100⅝	+0⅛	7.05
New Zealand 7½ 91	200	98⅞	+0⅛	7.52
New Zealand 7⅝ 91	250	100⅝	0	7.58
New Zealand 8 93	100	100⅞	0	7.93
New Zealand 8⅝ 93	150	101⅞	0	7.85
New Zealand 10⅝ 95	200	110½	−0⅛	8.43
Nippon Cred Bk 13⅞ 89	100	114	0	7.08
Nisho Iwai 10⅝ 92	100	110⅝	−0½	8.22
Nova Scotia 11¾ 91	100	104½	0	10.27
NSW Treasury 11¾ 90	150	111⅞	−0⅛	7.44
Olympia & York 8⅝ 96	435	95⅞	−0⅛	8.38
Ontario Hydro 10⅝ 90	250	109⅞	−0⅛	7.02
Ontario Hydro 11⅝ 89	200	110½	−0⅛	6.96
Ontario Hydro 11⅝ 94	200	120⅝	−0⅛	7.72
Ontario Hydro 11⅝ 90	200	113⅝	−0½	7.19
Ontario Hydro 13½ 91	100	120⅝	−0⅛	7.30
Ontario Hydro 14⅝ 89	150	114⅝	−0⅛	7.08
Ontario Hydro 15 92	150	130⅞	−0⅛	7.75
Pacific Gas & El 12 00	75	119	+0⅛	9.38
Pacific Gas & El 15½ 89	45	0		
Penney J C 11⅞ 90	100	103½	−0⅛	10.60
Penney J C 12⅝ 91	100	112	−0⅛	9.35
Pepsico Capital 8⅝ 91	100	103⅝	−0⅛	7.38
Petro-Canada 7⅝ 96	200	95	−0⅛	8.03
Philip Morris 9⅞ 96	200	109⅝	−0⅛	8.47
Post Och Kred 13½ 87	50	102	−0⅛	7.58
Postpankki 11⅝ 90	75	109½	0	7.62
Proctor & Gam 10 96	150	111	−0⅛	8.11
Pru Rlty Secs 0 98	365	37⅞	−0⅛	8.67
Qantas Airways 8⅝ 96	97	103	−0⅛	8.14
Quebec Hydro 10 93	75	102½	0	9.80
Quebec Prov 13 90	150	115½	0	7.89
Queensld Gvt 11⅝ 89	100	110	0	7.23
Ralston Purina 11⅝ 95	150	116	−0½	8.88
Reynolds R. J. 10⅝ 93	100	111⅝	−0⅛	7.53
Rockwell Int 9⅞ 90	200	107⅞	0	7.14
Saskatchewan 7 91	125	100	−0⅛	7.48
Saskatchewan 8½ 91	150	103½	0	7.45
Saskatchewan 11⅞ 89	100	110⅞	−0⅛	7.22
Saskatchewan 15 92	150	0		
SAS 10⅝ 95	150	110⅝	−0⅛	8.38
Scot Intl Fin 10⅝ 90	50	107½	−0⅛	7.94
Sears O/S Fin 0 98	500	38⅝	−0⅛	8.98
Sears OSS Fin 11⅝ 93	150	119⅞	0	7.65
Sears Roebuck 10½ 91	150	105⅝	0	9.00
Sec Pacific 10½ 88	100	104⅝	0	6.90
Shell (Canada) 14⅝ 92	125	114	0	10.89
Shell Oil 8½ 90	250	108⅝	+0⅛	7.45
Standard Oil 10½ 89	150	102½	−0⅛	8.91
St Bk Sth Aust 9⅝ 93	100	108⅝	−0⅛	7.91
State Elec Vict 10 92	100	109⅝	−0⅛	7.83
Sth Aus Gov Fin 8⅝ 96	100	104	+0⅛	7.89
Sumitomo Fin 11⅝ 92	150	116⅝	0	7.63
Sweden 8½ 94	150	102⅝	−0⅛	7.61
Sweden 10⅝ 92	250	112⅝	0	7.43
Swedish Exp Crd 8⅝ 93	100	106	−0⅛	8.02
Swedish Export 11½ 89	100	108	0	6.81
Taiyo Kobe 11½ 90	100	111⅝	−0⅛	7.54
Taiyo Kobe 12 90	100	114½	0	7.41
Tenneco Corp 11½ 96	150	0		
Texaco Capital 13⅝ 99	200	108	−1	11.87
Texas Inst 11⅝ 91	150	107⅝	0	9.46
Tokai Asia 11½ 95	100	119⅝	0	8.14
Tokyo Metro 9⅝ 96	200	102⅝	0	7.90
UBS 12⅝ 91	100	106½	−0⅛	10.24
Unilever Cap Co 9⅝ 92	150	110⅝	−0½	7.50
Vict PBC Auth 9⅝ 96	100	101⅝	−0¼	8.17
Warner-Lambert 9⅝ 96	100	100⅝	0	7.86
Wells Fargo 13½ 91	100	0		
Weyerhauser 11⅝ 90	60	103½	−0⅛	10.27
World Bank 7 92	300	0		
World Bank 11⅝ 90	300	113⅝	0	8.82
World Bank 11⅝ 88	200	108⅝	0	6.56
World Bank 11⅝ 90	150	113⅝	−0⅛	6.79

FLOATING RATE NOTES	Issued	Bid price	Chg. on week	C.cpn
Alaska Housing 1/10 01	125			6⅝
Alberta Province ⅛ 93	500	99⅝	−0⅛	3
Alliance & Leics 0.08 94	300			11⅞
Allied Irish ⅛ 96	100			6⅝
Amer S & L 0.15 96	200			6⅝
Banco di Sicilia ⅛ 92	100	99⅝	0	6⅝
Banco Roma 1/10 92	150			6⅝
Bank of Boston ⅛ 2000	200			6⅝
Bk of Montreal ⅛ 88	250			6⅝
Ban Indosz ⅛ 91 XW £	85			11⅛
Barclays O/S Inv ⅛ 04	350			6⅝
BBL Intl 88	100	99⅝	−0⅛	6⅝
Belgium ⅛ 94 £	100			11⅛
Belgium ⅛ 97	500	100	−0⅛	4⅝
Belgium 00	100	99⅝	−0⅛	6⅝
Belgium ⅛ 04	400			6⅝
Belgium 05	400			6⅝
Bilbao Intl 0.095 01	150			6⅝
BNP 05	300			6⅝
CCCE ⅛ 98	50	99⅝	0	6⅝
CCF 97	100			6⅝
Central Intl 1/10 00	150	99⅝	−0⅛	6⅝
Centrust 0.15 96	100			6⅝
CEPME ⅛ 96 £	100	100	−0⅛	11⅞
Chase Manhattan ⅛ 93	150	99⅝	0	6⅝
Chase Manhattan ⅛ 09	400			6⅝
Chemical NY ⅛ 97	250			6⅝
Citicorp O/S ⅛ 94	100	98	−2	6⅝
Citizens Fed C.15 96	100			6⅝
Commerzbank ⅛ 89	150			6⅝
Council of Europe 93	100	99⅝	0	6
Cred for Exports ⅛ 92	[illegible]	99⅝	0	6⅝
Credit Foncier ⅛ 94	70	100	0	7⅝
Credit Foncier 97	300			6⅝
Credit Foncier ⅛ 00 £	100			11⅝
Credit Lyonnais ⅛ 98	350			6⅝
Credit National ⅛ 98	175	99⅝	0	7⅝
Creditanstalt ⅛ 98	100			6
Eldorado Nuke 88	100	99⅝	0	6⅝
ENEL ⅛ 93 £	100			11⅝
ENEL ⅛ 00	300			6⅝
Ferro Del Stat 1/10 88	100			6⅝
Ferro Del Stat 97	420			6⅝
Finnpap ⅛ 95	100	99⅝	0	6⅝
First Bk System ⅛ 97	100	98	−1	6⅝
First Chicago ⅛ 98	125	99⅝	−0⅛	6⅝
Ford Motor Cr ⅛ 91	200			6⅝
Genfinance ⅛ 94	100	100	0	6⅝
Grindlays ⅛ 94	100	100	0	6⅝
GW O/S Fin 94	100	98	−0⅛	6⅝
Halifax BS 2/25 96 (A)	150			11⅝
Halifax BS 2/25 96 (B)	150			6⅝
Hessische Landesbk 98	100			6⅝
Iceland ⅛ 00	125	99⅝	0	6⅝
Ireland ⅛ 98 £	100			10⅝
Ireland ⅛ 97	300			6⅝
Isveimer ⅛ 90	175	100	0	6⅝
Italy ⅛ 05	500			6⅝
KB Ifima 0.15 11	150			6⅝
Korea Exchang Bk ⅛ 00	100	100⅛	0	6⅝
Lincoln S & L ⅛ 98	100			6⅝
Linfin Cpn ⅛ 01	100			6⅝
Malaysia ⅛ 92	250	99⅝	+0⅛	6⅝
Malaysia ⅛ 05	650	91⅝	0	6⅝
Marine Midland ⅛ 09	150			6⅝
Midland Intl ⅛ 92	150	100⅛	−0⅛	6⅝
Milk Marketg ⅛ 93	75			11⅞
Mitsui Fin ⅛ 96	100			6⅝
Mtg Intermed ⅛ 10 £	50	99⅝	+0⅛	11½
Nat Aust Bk ⅛ 97	100			6⅝
Nat Bank Canada ⅛ 91	50	100	+0⅛	7
Nat Bank Canada 96	200			6⅝
Nat Bk Canada ⅛ 98	150			6⅝
Nat Bk Detroit ⅛ 96	100	97	−1⅛	6⅝
Nat West ⅛ 05	400			6⅝
Nat West Fin ⅛ 92	100	100⅛	+0⅛	6⅝
Nationwide 1/10 96	250			11⅞
Natl Com ⅛ 94	200	99	−0⅛	6⅝
NBD Bancorp ⅛ 2005	100	97	−1⅛	6⅝
Northeast Sav 1/10 96	150			6⅝
ONGC ⅛ 96	125	99⅝	0	6⅝
Oster Landbk ⅛ 99	100	99⅝	−0⅛	6⅝
PNC Fin ⅛ 97	100	99⅝	−0⅛	6⅝
Quebec Hydro 2002	200			6⅝
Queensld Coal 1/20 95	300			6⅝
Renfe 98				
Santa Barbara S&L ⅛ 95	250			6⅝
Scandinavia Fin ⅛ 90	20	100	0	11⅝
Scot Intl Fin ⅛ 92	100	99⅝	−0⅛	6⅝
Sec Pacific ⅛ 92	100	99⅝	−0⅛	6⅝
SNCB ⅛ 91	75	99⅝	0	6⅝
Sweden ⅛ 2005	500			6⅝
Taiyo ⅛ 04	100			6⅝
Takugin ⅛ 97	100	99⅝	−0⅛	6⅝
Thailand ⅛ 05	60	99⅝	0	6⅝
Vereinwest O/S Fin 91	100			6⅝
Wells Fargo 0.225 92	150			6⅝
Wells Fargo ⅛ 96	50	97	−1	6⅝
Wells Fargo ⅛ 97	250			6⅝
Wells Fargo ⅛ 98	200			6⅝
Wells Fargo ⅛ 00	200	99⅝	0	6⅝
Westpac Banking ⅛ 97	150	98	0	6⅝
Woodside Fin (Feb) 97	300			10⅝
Woolwich Equit ⅛ 95	200			6⅝
World Bank 0.35 94	250	99⅝	0	6⅝
Zentral Und Kom ⅛ 91	30	99⅝	0	6⅝

CONVERTIBLE BONDS	Issued	Bid price	Chg. on week	Prem.
American Bnkrs 5¾ 01	70	103	−0⅛	39.37
BET 6⅞ 01 £	65	117½	−1½	−100.0
Canon 3 00	100	117½	0	2.95
Citizen Watch 3 00	50	136⅞	0	9.44
Eastman Kodak 6⅝ 01	300	116⅝	−1⅛	18.79
Elders UK 5⅝ 96	175	116½	−0⅛	0.04
Fanuc 3⅝ 98	80	215⅝	0	−0.61
Fujitsu 3 89	130	0		
Gibraltar Savings 7½ 06	100	109⅝	+0⅛	16.78
ITT 4⅝ 87	50	113⅝	−2	−0.47
Kinder-Care Int 6⅝ 98	50	124⅝	−2⅛	93.86
Lorimar-Telepics 8 01	100	98⅝	−2	68.17
Newmont Mining 7 01	100	127⅝	+1½	7.16
Nippon Seiko 3⅝ 99	70	122	+2	−0.88
Penney J C Int 4½ 87	35	120⅝	+2½	−0.84
Rockefeller Centre 0 00	952	29⅝	+0⅛	−70.97
Southwest Air 6⅝ 98	35	96⅝	−1⅛	69.49
Swiss Bank Corp 6⅝ 90	120	146	−2	−10.18
Texaco Capital 11⅝ 94	500	101	0	45.72
Toshiba Ceramics 3 00	60	124½	+2	12.17
Xerox Corpn 5 88	75	97⅝	+7⅛	94.89

YEN STRAIGHTS	Issued	Bid price	Chg. on week	Yield
Allied Signal 6⅝ 93	20	108⅝	+0⅛	5.07
Avon Products 6⅝ 91	25	106⅝	0	5.05
Barclays O/S 6 96	40	0		
BFCE 5⅞ 96	20	0		
Canadian Pacific 6⅝ 98	10	116⅝	+0⅛	5.34
Denmark 6⅝ 92	20	109⅝	0	[illegible]
Dow Chemical 7 94	50	104⅝	0	5.20
Eurofima 6½ 95	15	0		
Eurofima 6⅝ 92	10	108⅝	+0⅛	5.36
FNMA 6⅝ 92	50	0		
GMAC 6½ 90	25	106⅝	+0⅛	4.21
Int-Amer Dev 7⅛ 93	15	106⅝	−0⅛	5.53
Intel 6⅝ 92	12.5	102	+0⅛	5.13
ITT 6⅝ 92	30	110⅛	0	4.47
McDonald Corp 6⅝ 92	25	108⅝	+0⅛	4.49
New Zealand 7⅝ 90	15	110⅝	+0⅛	4.67
New Zealand 7⅝ 88	15	107⅝	+0⅛	4.23
Penney J C 6⅝ 92	25	108½	−0⅛	4.54
Philip Morris 6½ 91	20	107⅝	+0⅛	4.37
Sallie Mae 6⅝ 92	25	105⅝	0	4.44
TRW 7 94	15	104⅝	−0⅛	5.22
World Bank 7⅝ 89	20	116⅝	+1⅛	4.65
World Bank 8 93	20	118½	+0⅛	4.48

LUXFR STRAIGHTS	Issued	Bid price	Chg. on week	Yield
Asian Dev Bank 8⅝ 87	400	99½	0	10.58
EIB 10½ 94	1bn	107⅝	0	9.06
Eurofima 10.94	800	105	+0⅛	9.05
Eur Coal & Std 10½ 94	1bn	103⅝	0	9.84
Renault Acc 7⅝ 88	500	99⅝	0	7.90

GUILDER STRAIGHTS	Issued	Bid price	Chg. on week	Yield
ABN 7⅝ 89	150	103⅝	0	6.14
ABN 8 89	200	103⅝	0	6.06
Amro Bank 7⅝ 89	100	102⅝	−0⅛	6.10
Amro Bank 8 89	200	103⅝	0	6.09
Beatrice Foods 8⅝ 89	100	103⅝	−0⅛	6.57
Bk Mees & Hope 8⅝ 89	100	103⅝	0	6.16
CC Rabo 8 88	[illegible]	103⅝	−0⅛	6.15
Denmark 8⅝ 91	100	107⅝	0	6.32
Int Stand Elec 8⅝ 89	100	104	0	6.22
New Zealand 8⅝ 89	100	104⅝	0	6.22

CANADIAN DOLLAR STRAIGHTS	Issued	Bid price	Chg. on week	Yield
AIDC 10 91	100	104⅝	+0⅛	8.85
Aust Resources 11⅝ 92	50	105⅝	+0⅛	9.30
Bank of Tokyo 10⅝ 92	75	102	0	10.14
Bqe l'Indosuez 14 91	75	112½	+0⅛	10.27
Br Col Munic 12⅝ 91	100	0		
Br Col Munic 13⅝ 91	100			
Br Col Tele 12⅝ 88	70	106⅝	+0⅛	11.28
Farm Cred Corp 12⅝ 90	75	108⅝	+0⅛	8.82
Kredietbank 12 92	75	108⅝	−0⅛	10.15
Laval City 10⅝ 96	40	105⅝	+0⅛	9.74
Montreal City 12⅝ 91	50	108⅞	−0⅛	9.25
New Brunswick 12 96	75	112⅝	−0⅛	8.82
Nova Scotia 11⅝ 95	100	112⅝	+0⅛	9.38
Royal Trustco 10⅝ 90	75	106⅝	+0⅛	8.86

ECU STRAIGHTS	Issued	Bid price	Chg. on week	Yield
ABN 8⅝ 92	100	103⅝	0	8.55
Aegon NV 7⅝ 95	101	96⅝	+0⅛	7.83
All Nippon Air 9 95	130	106⅝	+0⅛	7.87
Australia & NZ 10⅝ 91	80	104⅝	+0⅛	8.33
Austria 10⅝ 93	100	109⅝	0	8.45
BFCE 8⅝ 93	180	102⅝	+0⅛	8.12
BFCE 8⅝ 92	100	109⅝	0	7.38
BNP 8⅝ 95	75	104⅝	+0⅛	8.09
Caisse Nat Tele 8⅝ 92	75	109⅝	0	7.47
Chrysler Fin 9 92	75	102⅝	+0⅛	8.59
Colgate-Palmolive 8 91	75	101½	0	7.44
Cred Lyonnaise 8⅝ 92	175	96⅝	+0⅛	7.45
Cred National 10½ 94	80	108	−1⅛	8.80
Cred National 11⅝ 91	80	107⅝	0	8.86
Creditanstalt 8⅝ 94	67	105⅝	+0⅛	7.38
Denmark 7⅝ 95	350	97⅝	0	7.98
Ebco Intl 10⅝ 89	55	102⅝	0	9.25
EEC 11⅝ 91	80	107⅝	+0⅛	8.93
EIB 9⅝ 95	200	105⅝	+0⅛	8.23
EIB 10⅝ 94	130	112½	+0⅛	7.78
EIB 11⅝ 92	75	107⅝	+0⅛	8.39
Genfinance 11 90	70	105⅝	0	9.16
Giro Vienna 10½ 93	60	108	+0⅛	8.86
GTE Finance 10⅞ 92	50	105⅝	0	9.15
Ireland 10⅝ 95	50	108⅝	0	9.08
Italian Govt 10½ 92	800	109⅝	−0⅛	9.37
Italian Tres 11½ 90	600	109½	0	8.62
Italy 9⅝ 89	200	104⅝	0	7.14
Kredietbank L 9⅝ 92	75	102⅝	+0⅛	8.64
Morgan Gty Tst 8½ 90	100	103	0	7.48
Royal Bk Can 10.5 89	95	102⅝	0	9.24
Swedish Export 11 89	57	103⅝	0	8.58
West LB 10⅞ 91	90	106	+0⅛	8.98
World Bank 10⅝ 88	100	102⅝	+0⅛	8.89

AUSTRALIAN DOLLAR STRAIGHTS	Issued	Bid price	Chg. on week	Yield
BMW Fin A 13⅝ 98 SW	75	101	0	13.56
Nat Aust Bk 12⅝ 89	50	95	0	15.57
SBC Australia 12½ 90	50	98	0	13.20
Westpac Bkng 12⅝ 90	50	93⅝	0	15.32

STERLING STRAIGHTS	Issued	Bid price	Chg. on week	Yield
British Oxygen 11⅝ 91	50	105⅝	+0½	9.97
Denmark 10⅝ 89	75	0		
EEC 11⅝ 94	50	107⅝	+0⅛	9.77
Emhart 11 92	35	104⅝	0	9.92
Europarat 11⅝ 92	50	106	0	10.06
Halifax BS 9⅝ 93	100	0		
Ind Bk Japan 11⅝ 95	30	103⅝	−0⅛	11.01
Int Stand Elec 11½ 89	50	103⅝	0	9.99
Investors Indus 10⅝ 93	25	0		
Ireland 11⅝ 94	50	104⅝	0	10.44
Kredietbank 10⅝ 92	50	0		
Leeds Permanent 9⅝ 93	50	0		
Mitsbshi Fin HK 11 90	50	0		
World Bank 10⅝ 89	100	0		
World Bank 11⅝ 88	100	101⅞	0	9.56
Yamaichi Scs 3⅝ 91 XW	20	75⅝	+0⅛	10.64

EQUITY WARRANTS	Expiry date	Bid price	Chg. on week	Prem.
Casio Computer	6/3/89	48	+7½	14.75
Dowa Mining	20/7/90	12	+2½	100.69
Fujita Corpn	9/8/91	25½	0	34.10
Futitsu	31/1/91	27½	−0⅛	34.89
Gunze	23/11/90	49	0	1.54
Minebea	22/5/91	17½	+5	13.76
Renown Inc	24/1/89	24	+2	20.23
Seino Trans	17/3/89	83	+2	−1.45
Sonoike Mfg	12/9/91	0		
Sony Corp	28/4/90	22	+1	81.55
Sumitomo Corp	24/1/91	60	+4	8.82
Toray Ind	10/12/90	64	+1	8.78
UNY	17/8/91	12½	0	61.29

BOND WARRANTS	Expiry date	Bid price	Chg. on week	yield
Aegon Ins 11⅝ 91	15/2/88	111⅞	−3⅝	7.85
Dart Kraft F 10⅝ 95	1/1/88	25	0	9.90
D Norske Cr 8⅝ 96	8/8/88	19	−1	7.94
Eksportfinas 13⅝ 89	15/9/87	125	−6⅝	7.54
Gen Elec Crd 12 94	16/11/87	140	−25	9.34
Ind Bk Jpn 12⅝ 91	5/10/89	167½	−5	8.28
Mitsubishi F 12⅝ 91	8/11/88	162½	−5	8.25
JP Morgan 11⅝ 90	16/6/87	75	−11⅝	8.12
Nordic Iv Bk 7⅝ 96	30/10/91	20	+2	7.57
Sumi Tr Fn 12⅝ 92	[illegible]	180	−16⅝	8.40
Wlls Frgo A 12⅝ 91	27/12/88	165	−5	8.29
Weyerhar C 13½ 90	15/11/87	82½	−3⅝	8.27

STRAIGHT BONDS: Yield to redemption of the mid-price. Amount issued is expressed in millions of currency units except for yen bonds, where it is in billions.

FLOATING RATE NOTES: US dollars unless indicated. Margin above six-month offered rate (‡ three-month; § above mean rate) for US dollars. C.cpn=current coupon.

CONVERTIBLE BONDS: US dollars unless indicated. Prem=percentage premium of the current effective price of buying shares via the bond over the most recent share price.

WARRANTS: Equity warrant prem=exercise premium over current share price. Bond warrant ex yld=exercise yield at current warrant price.

Closing prices on March 13.

Investors' briefing on Korea Euro Fund

By Maggie Ford in Seoul

EUROPEAN INVESTORS interested in the South Korean stock market will receive briefings in five cities this week on the Korea Euro Fund, to be launched on March 24.

Interest is expected to be high following the success of the Korea Fund, launched in the US in 1984.

Direct foreign investment is not yet permitted in the South Korean stock market, which is presently undergoing a boom due to the large amount of liquidity in the economy following the country's first ever trade surplus. The composite stock price index closed at 359 on Friday, up from 317 only a month ago.

Analysts believe South Korean stocks are undervalued with substantial growth potential. The Government has committed itself to liberalisation of the market, but is known to be concerned about allowing foreign investment too soon.

Barings and Ssangyong Securities are joint lead managers of the fund, which has capital of $30m. The portfolio will be managed by Korea Schroder Fund Management.

AIRCRAFT MAKER CANCELS USAF CONTRACT

Fairchild to close NY plant

BY WILLIAM HALL IN NEW YORK

FAIRCHILD INDUSTRIES, the small and financially troubled US aircraft manufacturer, has cancelled its contract to build T-46A trainer aircraft for the US Air Force and will close its aircraft assembly plant in Long Island, New York, with the loss of more than 2,500 jobs.

Mr Paul Wright, president, said that when the company's Fairchild Republic subsidiary won the contract to build the T-46A for the US Air Force in 1982 it had expected to build hundreds of trainers, "but with the budget constraints the Air Force faces, the trainer's priority declined, and the Air Force cancelled it." At one stage the plan was to build as many as 650 aircraft costing $3.5bn.

However, industry analysts note that the contract for the training aircraft has been plagued with production difficulties and Fairchild's own financial problems – it has lost $229m from discontinued operations over the last two years – encouraged it to quit the highly competitive aircraft construction business.

In 1985, the company cancelled a joint venture to produce the Saab-Fairchild turboprop aircraft because of cost over-runs and production difficulties.

Mr John Sandford, president of Fairchild Republic, blamed the lack of additional funding for the trainer and the Air Force's position that it could not afford a new trainer over the next several years for the decision to close the company's aircraft manufacturing plant at Farmingdale, Long Island.

He said that until last autumn the company had hoped to find a way to continue the T-46A programme. However, funding did not materialise in the last congressional session and attempts to find new partners for the project failed. "The T-46A was proven in flight testing that it's a good airplane that would serve the Air Force training needs well," Mr Sandford said.

Fairchild Industries lost $9.96m, or $1.58 per share, in 1986, after crediting a $44.9m gain reflecting a change in pension fund accounting. In 1985, the company lost $167m, or $13.17 per share.

The company's sales rose by 11.6 per cent to $643.3m in 1986. Fairchild shares closed unchanged at $13⅜ on Friday.

● Rockwell International, the major US defence contractor, is to spend a further $500m on repurchasthe last year, the company has spent $461m buying back 10.4m of its shares and reducing the total outstanding to 140m. At current prices, the company says that the latest share buyback programme would reduce the number of outstanding shares by about 7 per cent. Rockwell shares closed at $54⅞ on Friday.

Philippine nickel mine offered Soviet help

BY RICHARD GOURLAY IN MANILA

TSVETMETPROMEXPORT, a Soviet metal trading and equipment sales company, has asked the Philippine Government whether it can help either rehabilitate or operate the mothballed nickel and cobalt mine owned by Nonoc Mining and Industrial.

Mr Arthur Aguilar, president of Nonoc, said over the weekend that the board of the company, which last Monday filed for protection against its creditors, would reply shortly to the Soviet request by asking for more specific proposals.

The Soviet trade commission in Manila confirmed that Tsvetmetpromexport was interested in "construction and production at Nonoc," but said that the discussions, which had been initiated by the Philippine side, were still at an early stage.

Nonoc, which has taken on the assets of the collapsed Marinduque Mining, last week sought protection from creditors who are owed a total of some $800m. Its assets have a book value of around $600m, but the mine and associated plant have not operated since a strike, coinciding with low world prices for nickel, shut it down a year ago.

The Nonoc mine has estimated reserves of about 54m tonnes of nickel, while the plant has an annual capacity of 13,000 tonnes of refined metal. Some 870 tonnes a year of cobalt metal is produced as a by-product.

An estimated $29m is needed to restart the plant, but Mr Aguilar said that high energy costs would keep operating costs above the current world nickel price of about $1.75 a pound, if existing technology is used.

As a result, Nonoc is looking at the possibility of investing in energy-saving equipment at a cost of over $100m. It has requested US technical aid to finance a feasibility study by Kaiser Engineering.

Even if it succeeds in finding new investors — and Mr Aguilar acknowledges that none are on the horizon—Nonoc still faces severe financial problems. Its largest creditor is the state-owned Development Bank of the Philippines, which took on debt of some $750m when it foreclosed on Marinduque in 1984.

March Rich, the Swiss-domiciled commodities trader, is owed $24m, advanced against the security of future deliveries of metal which have never been made. Philipp Brothers, the US metal dealing group, lent the company $10m.

Some of the 100 smaller creditors have been calling for the company's liquidation, prompting Nonoc to seek protection while the Government decides whether its rehabilitation is practicable.

The DBP is due to hand the problem over to the newly formed Asset Privatisation Trust later this month. It will have to decide the company's fate.

Esselte profits static

BY KEVIN DONE, NORDIC CORRESPONDENT IN STOCKHOLM

ESSELTE, the Swedish office supplies group, had virtually unchanged profits last year despite a 10 per cent increase in turnover.

Group profits came under pressure from continuing heavy investments in Esselte's pay-TV project, with some SKr 120m ($8.6m) charged against profits in 1986 compared with SKr 50m in 1985.

Profits (after financial items) totalled SKr 742m compared with SKr 741m in 1985. Group turnover rose to SKr 11.25bn from SKr 10.22bn in 1985.

Some SKr 139m of last year's profits were attributable to minority interests, with Esselte now owning only 79 per cent of Esselte Business Systems, the US subsidiary

Esselte said that sales this year are expected to rise faster than in 1986 with a similar increase in profits despite heavy costs for the pay-TV project.

NEW INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Book Runner	Offer yield %
U.S. DOLLARS							
Ashikaga Bank §‡	50	2002	15	2⅛	100	Nomura Int.	2.125
Hokkaido Bank §‡	30	2002	15	2⅛	100	Nomura Int.	2.125
Gunma Bank §‡	50	2002	15	2⅛	100	Nomura Int.	2.125
Matsushita El. Trading ¶‡	100	1992	5	2⅜	100	Nomura Int.	2.375
Mitsui & Co. ¶‡	150	1992	5	2⅜	100	Nomura Int.	2.375
Mitsui & Co. ¶‡	150	1994	7	3	100	Nomura Int.	3.000
Mitsui Real Estate ¶‡	200	1992	5	2⅜	100	Nomura Int.	2.375
BFCE ‡	150	1992	5	7	100	Société Générale	7.000
Eastman Kodak ‡	135	1997	10	7⅞	101⅛	IBJ Int.	7.710
IBJ Finance ‡	200	1997	10	7⅞	101⅛	IBJ Int.	7.710
Australia (a)‡	250	1997	10½	7⅝	99¼	Morgan Stanley	7.880
Australia (a)‡	150	2017	30	8⅜	95⅞	Morgan Stanley	8.552
Metropolis of Tokyo (a)‡	100	1997	10	7½	99.515	First Boston	7.713
CMO Eurotrust No. 23 (c)†‡	319.2	2017	3.6	40bp	100	Salomon Brothers	–
Banca Naz. del Lavoro ¶‡	120	1992	5	6	100	CSFB	6.000
Genentech Inc. §‡	150	2002	15	5	100	CSFB	5.000
News Int. ‡	125	1998	3	7½	100	CSFB	7.500
Hawley Group §(f)	150	2002	15	(6¾–8)	100	CSFB	*
Home Shopping §	150	2002	12.2	5½	100	Drexel Burnham L'bert	5.500
Norsk Hydro ‡	125	1997	10	8¼	101⅝	SBCI	8.000
CBS Inc. §‡	400	2002	15	5	100	Morgan Stanley	5.000
CANADIAN DOLLARS							
IKB Finance ‡	40	1994	7	9	101¾	IBJ Int.	8.656
American Express O'seas ‡	60	1994	7	9	101⅜	Shearson Lehman Bros.	8.728
Hydro Quebec ‡	150	1997	10	9	100¾	Merrill Lynch	8.884
OKB ‡	100	1997	10	9	101⅞	Mgn Guaranty/LTCB Int.	8.712
AUSTRALIAN DOLLARS							
Unilever Australia ‡	40	1990	3	14¾	101½	County NatWest	14.103
Rabobank Nederland ‡	50	1990	3	15¼	101½	SBCI	14.597
Bremer Landesbk Fin. ‡	40	1990	3	15	101⅞	ANZ Merchant Bank	14.494
Deutsche Bank Fin. ‡	150	1992	5	14½	101½	Deutsche Bk Cap. Mkts	14.062
NEW ZEALAND DOLLARS							
Bk of Nova Scotia ‡	50	1990	2	18¼	101	Morgan Stanley	17.014
D-MARKS							
BMW Finance ‡	324	1997–2017	10–30	(e)	–	Deutsche Bank	(e)
Kredietbank Int. Fin. Φ‡	100	1992	6	5½	116¾	Trinkaus & Burkhardt	1.951
Ford Motor Credit Φ‡	200	1992	5	5¾	116¾	Deutsche Bank	2.178
SWISS FRANCS							
Tokyo Tatemono Co. **§‡	90	1992	–	⅝	100	UBS	0.625
Dai-Ichi Kataoka Denki **§‡	45	1992	–	1½	100	Bqe Paribas (Suisse)	1.500
Gunze Sangyo **§‡	25	1992	–	1½	100	Swiss Volksbank	1.500
Japan Elec. Computer **‡	50	1992	–	4⅝	100¼	Bqe Paribas (Suisse)	4.568
Sumitomo Corp. **§	200	1992	–	(⅝)	*	SBC	*
Yamaman Co. **‡	50	1992	–	4¾	100½	Dai-Ichi Kangyo Bk	4.636
Belgium **‡	100	1997	–	4¾	100¾	Kredietbank (Suisse)	4.654
Mizuno Corp. **‡	30	1992	–	4⅝	100⅛	SBC	4.598
STERLING							
Storehouse ||‡	60	2001	14½	4¼	100	SBCI	4.250
Sweden ‡	100	1997	10	9½	101¼	Baring Brothers	9.303
Norsk Hydro ‡	50	1993	6	9⅞	101⅝	Hambros Bank	9.507
ICI ‡	100	2005	18	9¾	101¼	Warburg Securities	9.601
Rowntree Mackintosh §	55	2002	15	(4½–4¾)	100	J. H. Schroder Wagg	*
Metal Box §‡	65	2002	15	5¾	100	SBCI	5.750
ECSC ‡	100	1992	5	9⅞	100⅝	Warburg Securities	9.958
New Zealand ‡	100	1995	8	9⅝	100¼	Warburg Securities	9.570
ECUs							
Nisshin Int. Fin ‡	60	1992	5	7¾	101¾	Nomura Int.	7.320
Credit Foncier (b) ‡	150	1994	7	7⅝	101⅝	Banque Paribas	7.320
FRENCH FRANCS							
Moet-Hennessy ¶‡	800	1997	10	1	100	Lazard Frères et Cie	1.000
Investors in Ind. Int. (d) ‡	500	1994	7	9⅛	101	CCF	8.927
DANISH KRONER							
Nordic Inv. Bank ‡	300	1994	7	11¼	100	Enskilda Secs.	11.250
LUXEMBOURG FRANCS							
World Bank ‡	1bn	1997	10	7	100	BGL	7.000
YEN							
Union Bk of Finland ‡	10bn	1992	5	5	102⅜	LTCB Int.	4.400
Christiania Bank ‡	13bn	1992	5	6	99.9	Daiwa Europe	4.330
BNP ||‡	10.23bn	1995	8½	7	101½	IBJ Int.	6.753
Societe General ‡	15bn	1992	5	6	81.264	Daiwa Europe	4.237
Kawasaki Steel ‡	20bn	1994	7	4⅞	101½	Yamaichi Int. (Eur)	4.619
Toyota Motor Credit ‡	23bn	1992	5	4½	101½	Nomura Int.	4.162

* Not yet priced. ‡ Final terms. ** Private placement. † Floating rate notes. ¶ With equity warrants. Φ With currency warrants. § Convertible. || Currency linked. (a) Launched in US domestic market. (b) Additional Ecu 50m tap. (c) 40bp over 3m Libor. (d) With bond warrants. (e) Annuity bonds (with payments made in final 5 years of issue); yielding 10 yrs 6¼%, 15 yrs 6⅞%, 20 yrs 7%, 25 yrs 7⅛% and 30 yrs 7¼%. (f) Convertible cumulative redeemable preference shares in form of international depository receipts.
Note: Yields are calculated on AIBD basis.

UK COMPANY NEWS

London Stock Exchange listing puts value of £27m on Airtours

BY TERRY POVEY

Airtours, the Manchester-based low-budget tour operator, is coming to the main market towards the end of this month, valued at around £27m in a placing by the British Linen Bank of just under 30 per cent of its shares.

Mr David Crossland, chairman, said that the main reason for seeking a listing was not, in the short-term, to raise funds, but to enhance the company's standing, to allow for growth by acquisitions using marketable shares, and to make the executive share option scheme more attractive.

In 1986, the average price paid for an Airtours holiday was just under £190. The company believes that its customers are very price conscious and apart from its core family holiday and old-aged pensioner business, it also exploits opportunities arising from the problems of the market leaders in the tour field.

In 1985, for example, Airtours' pre-tax margins shot up to 7.3 per cent, against a more usual 4 to 5 per cent, as it was able to place many last minute holidaymakers in the empty airplane seats and hotel accommodation of its larger competitors.

The main destinations served by the company last year were the Balearic Islands, mainland Spain, the Canary Islands, Tunisia, Portugal and Malta.

Over the five years to September 1986, Airtours turnover has increased from £3.27m to £55m, and pre-tax profits have risen to £1.57m (£44,000). For this year, the company is forecasting that pre-tax profits will be in excess of £3m. Fully diluted earnings per share should be over 13p, suggesting a prospective p/e of between 12 and 13.

Having started in the travel agency business in 1963, Mr Crossland has been developing tour operations since 1980. However, low margins on Airtours' comparatively small 21-branch agency operation led it to sell this to Hogg Robinson for £2.75m in December.

Airtours had a cash balance of £7m in September and net assets will, after the flotation, be around £5m.

Through the placing, the company's two existing shareholders, Mr Crossland and Mr Tom Trickett, his brother-in-law and a director, are selling 3.75m shares—about £6m worth—and the company is issuing 750,000 new shares to raise some £1.3m before expenses.

After the flotation, the two directors will hold 71.5 per cent of the 15.75m shares in issue.

EFT battle likely to be defused

THE POTENTIAL battle over the small Scottish investment trust, *Edinburgh Financial Trust*, where two rival camps have put forward proposals for its future, looks likely to be defused at this morning's annual general meeting in Edinburgh.

Waverley Asset Management — the Scottish fund managers who are part of the consortium headed by Mr Bruce Judge, the New Zealand entrepreneur — says that they do not intend to put forward alternative proposals and will decide today whether to go ahead with the current motion calling for the removal of the existing EFT directors and their replacement by consortium appointees.

Three large shareholders in EFT have previously indicated that they will support the board's proposals. Together their holdings now total just over 40 per cent. The Judge consortium holds 21.77 per cent.

Carlton price is right for Central TV

BY CLAY HARRIS

Michael Green, come on down.

Up for bids was Ladbroke Group's 20 per cent stake in Central Independent Television, ITV contractor for the Midlands (and producer of The Price is Right), and the Carlton Communications chairman has carried it off with an offer of 578p a share.

The £29.5m purchase by Carlton, Europe's largest independent television production facilities company, is part of its plan to become a fully integrated communications group and is a long-term investment, Mr Green said.

Trading links and joint projects were likely between Central and Carlton, which had "experience in cost-conscious independent production," Mr Green said. Mr Robert Phillis, Carlton managing director, held the same position at Central until late last year.

The Independent Broadcasting Authority has approved the sale, giving Carlton access to a commercial franchise at its second attempt. Carlton's agreed £82.5m bid for Thames Television was blocked by the IBA in 1985 because it represented a mid-franchise change in ownership.

The deal was concluded late on Friday, only a week after Ladbroke disclosed that it had been approached to sell its stake, bought for £6.1m in 1983. In those seven days, Central's shares rose from 478p to 583p to give the company a market value of nearly £149m.

Carlton will fund the purchase with £18.2m in cash and through the issue of 1m shares, equivalent to about 3.3 per cent of existing equity, through a placing by L. Messel.

With Carlton shares at £11¼ on Friday, the group had a market value of £353m.

Ladbroke's proceeds will be boosted by Central's final dividend for 1986. The comparable figure for 1985 was 10p, for a total of more than £500,000. Ladbroke last week also announced the sale of its 76 per cent stake in Senews, contract printer and weekly newspaper publisher, for £12.57m.

Other major shareholders in Central include D. C. Thomson with a 20 per cent stake, Pergamon Holdings with 13.8 per cent, and Prudential Corporation with 5 per cent.

PENDING DIVIDENDS

	Date	Announcement last year
AMEC	Apr 2	Final 7.0
Abbey Life	Apr 2	Final 4.7
*Armstrong Equipment	Mar 23	Interim 0.75
*Assoc British Ports	Apr 8	Final 6.75
*BAT Industs	Mar 25	Final 7.35
*BICC	Mar 26	Final 7.5
*BSG Intl	Apr 2	Final due
Babcock Int.	Mar 26	Final 4.4
*Barratt Developmnts	Mar 19	Interim 3.284
*Booker	Mar 23	Final 7.75
Bowater	Apr 15	Final 5.5
*Brent Chems	Mar 23	Final 3.35
Bridon	Mar 26	Final 3.5
*British Aerospace	Mar 24	Final 10.0
*Britoil	Mar 19	Final 8.0
Brixton Estate	Apr 17	Final 3.25
Burmah Oil	Apr 10	Final 6.25
Burton	Apr 3	Interim 1.6
Cookson	Apr 10	Final 5.35
*Croda Intl	Mar 26	Final 4.0
*DRG	Mar 18	Final 4.95
Delta	Mar 21	Final 4.15
*Enterprise Oil	Mar 18	Final 6.0
Evered	Apr 10	Final 2.25
Exco	Mar 21	Final 2.6
*GRE	Apr 1	Final 19.75
Glaxo	Apr 15	Interim 4.0
Grattan	Mar 21	Final 4.0
Hall (M.)	Apr 16	Final 3.0
Hammerson Property	Apr 17	Final 7.0
Hawker Siddeley	Apr 16	Final 10.0
*Hepworth Ceramic	Mar 25	Final 4.3
*Hickson Int	Mar 23	Final 10.0
Horizon Travel	Mar 26	Final 3.52
*Iceland Frozen Foods	Mar 25	Final 4.4
*Kwik Save	Apr 23	Interim 1.8
Laporte	Apr 17	Final 5.05
*Laing (J.)	Apr 2	Final 6.0
*Legal and General	Mar 19	Final 16.0
*Lucas Inds	Mar 26	Interim 2.6
*Lond Scottish Marine Oil	Mar 31	Final 7.7
Mowlem (J.)	Apr 10	Final 10.0
*NEI	Mar 25	Final 3.6
*Ocean Trans	Mar 26	Final 3.95
*P & O	Mar 24	Final 10.0
*Pearson	Mar 16	Final 5.75
*Pentland Inds	Mar 23	Final 1.18
*Prudential	Mar 24	Final 17.0
*RMC	Apr 14	Final 9.4
Reckitt and Colman	Apr 3	Final 10.0
Rio Tinto-Zinc	Apr 9	Final 16.0
*Rugby Portland Cement	Mar 30	Final 3.5
Scottish Heritable	Apr 2	Final 1.8
*Slough Estates	Mar 30	Final 3.3
*Smith and Nephew	Mar 25	Final 3.25
Smith Inds	Apr 9	Interim 1.75
*Spring Ram	Mar 23	Final 1.21
Standard Chartered	Mar 25	Final 20.0
*Steetley	Mar 23	Final 9.0
Sun Alliance	Apr 2	Final 11.75
Taylor Woodrow	Apr 15	Final 13.28
*Transport Dev	Mar 19	Final 4.5
Tricentrol	Mar 26	Final 1.0
*Turner and Newall	Mar 18	Final 3.05
*Utd Biscuits	Mar 19	Final due
*Weir Group	Apr 2	Final 2.125
*Williams Holdings	Mar 19	Final 8.0
Wimpey (G.)	Mar 24	Final 2.9
Woolworth	Mar 26	Final 7.0

* Board meeting intimated. † Rights issue since made. ‡ Tax free. § Scrip issue since made. ¶ Forecast

APV closer

APV, which is making a recommended offer for Baker Perkins, moved closer to its objective with a further increase in acceptances from 41 to 44 per cent.

FT Share Information

The following securities have been added to the Share Information Service: Edenspring Invs. (Section: Third Market). Excalibur Jewellery (Industrials). TSB Channel Islands (Banks)

BOARD MEETINGS

TODAY

Interims:—Ben Bailey, London and Strathclyde Trust, MAI, Pacific Sales Organisation, Renishaw, Savage.

Finals:—Australian Agricultural, William Bedford, Cambridge Electronic Industries, Eucalyptus Pulp Mills, James Fisher, Lincroft Kilgour, Meggitt Holdings, Metalrax, Pearson, Process Systems, Rockwell, Sintrom, Sunleigh Electronics, Suter, Transport Development, WPP Group.

FUTURE DATES

Interims:—	
Peehina	Mar 16
Town Centre Securities	Mar 18
Finals:—	
Arlington Securities	Mar 26
Assam-Dooars	Mar 16
Associated Book Publishers	Mar 25
Berkeley and Hay Hill Invests.	Mar 23
Bilston and Battersea Enamels	Mar 23
Boddington Group	Mar 27
British Aerospace	Mar 24
Britannic Assurance	Mar 25
Bunzl	Mar 31
Charterhall	Mar 17
Davidson Pearce	Mar [illegible]
Duncan (Walter) & Goodricke	Mar 16
Glentree	Mar 19
P-E International	Mar 26
P & O Steam Navigation	Mar 24
Rugby Portland Cement	*Mar 30
Smith and Nephew	Mar 25
Stewart Wrightson	Mar 25
Western Dooars Tea	Mar 18

*Amended

Philip Coggan on Cambridge Instruments' return to the market
Standing up to the scrutineers

BACTERIA swarm over a pig's gut; a speck of paint from a Van Gogh yields up its chemical composition; the surface of a silicon chip stands revealed like a moon base in a science fiction film.

The world's minutiae loom large in the eye of a scanning electron microscope. Cambridge Instruments, the scientific equipment manufacturer that will shortly rejoin the stock market after an absence of nearly 20 years, hopes that its finances will also withstand the closest scrutiny.

The group's product line and balance sheet are both more solid than its hi-tech image might suggest. The technological breakthroughs in scanning electron microscopes (SEMs) are quite old—and in any case, SEMs form only a part of the group.

Although the group's semi-conductor equipment, like the electron beam microfabrication system, involves very advanced technology, it only constitutes an eighth of turnover. Well over a third consists of Reichert Industries, bought from Warner-Lambert last year. Reichert produces a range of optical instruments which, although sophisticated, are not in the forefront of technological advance.

Cambridge's finances have also been transformed in recent years. Since Dr Terry Gooding bought into the company in 1979, an ailing loss-maker has become a group with £100m-plus turnover and likely £8m-plus profits. After one aborted flotation in 1985, Cambridge now feels strong enough to come to the market.

Although Cambridge was one of the pioneers in the field of electron microscopes, after being founded in 1881 by Charles Darwin's son, Horace, it has taken a long time to achieve financial stability. An earlier listing lasted for only nine years until 1968 when two predators, George Kent, the instrument group, and the Rank Organisation moved in.

The bid battle was only settled in favour of Kent by the intervention of the Industrial Reorganisation Corporation, the Labour government's body for intervention in industry.

However, Kent itself fell into trouble and was taken over by the Swiss group, Brown Boveri in 1974. The next year, the old Cambridge Instruments was sold to the National Enterprise Board, the IRC's successor, which merged it with Metals Research, the scientific services company.

Metals added some of the products now being successfully exploited by Cambridge like crystal pulling, the technique used to refine the more exotic kinds of semi-conductor material used for specialty chips.

But the combined group proved a cash drain on the NEB and in 1979, the board brought in Dr Gooding in a final attempt to resuscitate the business. The NEB injected a further £6.5m in return for non-voting and preferred shares and allowed Dr Gooding, along with the ICFC and Midland Bank to achieve control of the voting capital for only £1.2m.

It proved a shrewd move for the Welsh-born nuclear physicist who had previously been president of Kratos, an instruments company involved in the field of electron microscopes.

The Cambridge Dr Gooding inherited concentrated its focus too much on technology and not enough on marketing. He immediately cut research and development spending and encouraged his engineers to produce instruments aimed at meeting the practical needs of scientists and researchers.

Dr Terry Gooding, chief executive of Cambridge

Gooding also cut costs by concentrating production on one Cambridge site and tightening controls on stocks and cash flow. The result was to shift the company from losses of £3m a year into profit in 18 months.

Because of the change in approach, Cambridge's new SEMs impress not so much by their magnifying power, but by the accompanying computer technology. The top of the range 360 model produces digitised images which clear the screen of the snowy, "noise effect" that makes analysis more difficult on other machines. It also has a user-friendly keyboard and a disc drive, allowing users to reprogramme the machine to their configuration requirements at the touch of a button.

Alongside the SEMs are the image analysis machines which can be used by manufacturers to process vast amounts of information too complex for the human eye — like the size and shape of particles in a coal slurry, or the number and size of holes in a chocolate bar.

The medical instrument division which Dr Gooding inherited was too small to compete in world markets. After acquiring two Warner Lambert subsidiaries in 1980, he dramatically changed tack and merged the division with the US-based Picker subsidiary of GEC, with Gooding himself taking over as the chief executive. Cambridge's stake in Picker was sold for £10m in 1985.

Last May, Cambridge nearly doubled its size by buying Reichert for $35m with a further $15m payable over five years. It recouped the bulk of the cost by selling the fibre optics business for $12m and merging its distributor Andrews & George with a Japanese company, thereby releasing some $20m of surplus properties.

One small hurdle needs to be cleared before the offer can proceed—an extraordinary general meeting to be held today to approve a one-for-one scrip issue and the extension of the authorised capital.

Because of the group's chequered history, there are a large number of small shareholders, many of whom have holdings as small as one share. Cambridge is offering such shareholders preferential rights to 200 shares in the issue. That is a good deal for the very small investors, but has provoked dissent from those shareholders who have slightly larger stakes, who feel they are being unfairly treated.

Cambridge should win its motion and the circular to shareholders gives some clues as to the likely valuation. No more than 31 per cent of the enlarged equity will be offered in the form of new shares. If the market capitalisation is, as has been suggested, a bit over £100m, that would indicate a p/e in the high teens.

FINANCIAL TIMES STOCK INDICES

	Mar. 13	Mar. 12	Mar. 11	Mar. 10	Mar. 9	Mar. 6	1986/87 High	1986/87 Low	Since Compilation High	Since Compilation Low
Government Secs.	89.87	89.89	90.12	89.55	89.25	89.52	94.51	80.39	127.4	49.18
Fixed Interest	95.29	95.55	95.5	95.13	95.13	94.69	97.68	86.55	150.4	50.53
Ordinary	1583.9	1578.0	1571.4	1586.4	1576.3	1601.4	1613.5	1094.3	1613.5	49.4
Gold Mines	340.1	331.3	324.1	322.2	329.6	338.2	346.7	185.7	734.7	43.5
FT-Act All Share	997.23	991.89	987.25	989.66	983.81	993.38	997.23	664.42	997.23	61.92
FT-SE 100	2000.0	1989.7	1979.4	1987.7	1973.7	1998.2	2002.8	1370.1	2002.8	986.9

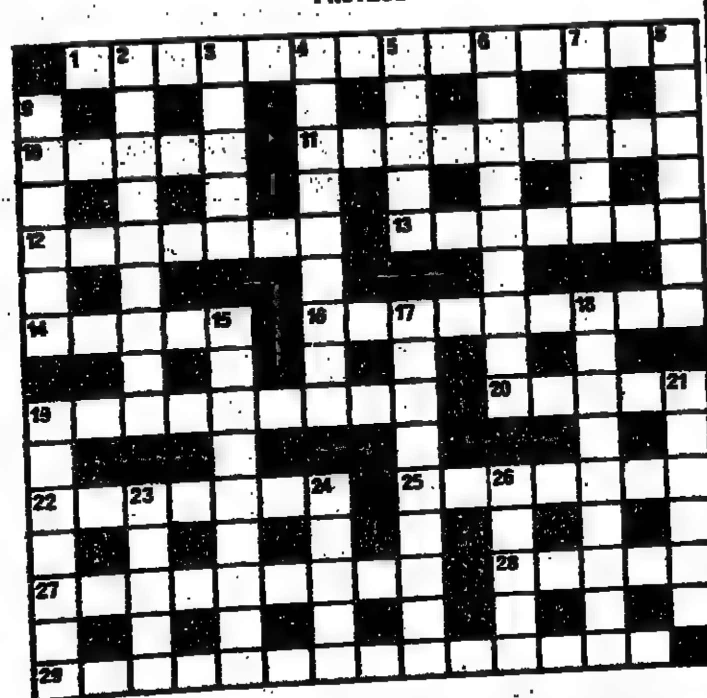
AUTHORISED UNIT TRUSTS

FT UNIT TRUST INFORMATION SERVICE

INSURANCES

FT CROSSWORD PUZZLE No. 6,278

PROTEUS



ACROSS

1 Where some commuters may be found to be old-fashioned (6, 3, 5,)
10 Machine for putting point on thin slip of wood (5)
11 Opposing point expressed in sadly inapt poems (9)
12 Safe perhaps with his unusual denizen of the deep (3-4)
13 Firm showing anger about pill abuse (7)
14 Early form of animal-man (5)
16 Abatement of money for expenses (9)
19 Characters holding contest and making bridge snap? (4, 5)
20 Chief magistrate's bird (5)
22 Some paused at edge though tranquillised (7)
25 They show affection for hybrids (7)
27 On the spur of the moment child gets gypsy man put out (9)
28 Get used to going in river (5)
29 Have a regard for competence and moral character (14)

DOWN

2 One who takes parts from old farm vehicle (9)
3 Some fine citizens raised in old tribe (5)
4 Midriff helping girl to play hard at A.G.M. (9)
5 Excited male sheep (3, 2)
6 Leading attraction of high social standing (3, 6)
7 Ideal doctor was first up (5)
8 Awful lies in letter about squatting (7)
9 He shuts up when in more intimate position (6)
15 Rowing crew taking part in type of reel (9)
17 Animal swallowing hard crust down to final morsel (4, 5)
18 New wine apparently required when Nick is at the wheel? (5, 4)
19 He has to account for money one is about to turn over (7)
21 Aim to have girl followed (6)
23 Tricks of hard-up escorts (5)
24 Drank hard up at regimental headquarters (5)
26 College-window? (5)

The solution to last Saturday's prize puzzle will be published with names of winners next Saturday.

AUTHORISED UNIT TRUST & INSURANCES

Growth & Sec. Life Assce. Soc. Ltd
23 Bolton Rd, Haywards Heath, W. Sussex 0444 413307

Flexible Finance		195.71	
Landbank Secs.		73.75	
Landbank Secs. Acc	255 99	261 99	
G. & S. Super Fd		14.5871	

Guardian Royal Exchange
Royal Exchange, EC3 01-283 7101

Guardian Assurance			
Property Bonds	412.4	429 9	
GRE Linked Life Assurance Ltd			
Managed Initial	371.9	391.5	+3.7
Do. Accum	445.7	469.2	+4.5
Equity Initial	494.3	520.3	+5.9
Do. Accum	592 4	623 6	+7.1
Fixed Int. Initial	256.8	270.3	−0 1
Do. Accum	307.8	324.0	
Intl. Initial	400 6	421.7	+2.7
Do Accum	480.1	505 4	+3.3
North American Initial	152.7	160.8	+1.6
Do. Accum	166.6	175.4	+1.8
Pacific Initial	225.6	237 4	+2.8
Do. Accum	243.7	256 5	+3.0
European Initial	97 4	102 6	+1.6
Do. Accum	98.5	103 6	+1.6
Property Initial	140 0	147 4	
Do Accum	167 7	176.5	
Index-Linked Gilt Init.	103.2	108.6	−0.4
Do. Accum.	112.6	118.5	−0 4
Deposit Initial	140.4	147 9	
Deposit Accum	168.3	177.2	
GRE Pensions Management Ltd			
Pens. Managed Initial	413.7	435 5	+4.9
Pens. Managed Acc	484.6	510.1	+5.7
Pens. Equity Initial	584 4	615.2	+8.0
Pens. Equity Acc.	684.6	720.6	+9.4
Pens. Fxd Int. Initial	291.5	306 9	+0.5
Pens. Fixed Int. Acc.	341.5	359.5	+0.6
Pens. Int'l Initial	387.1	407.4	+2.2
Pens. Int'l Acc.	453.4	477.2	+2.6
Pens. Prp Initial	167 6	176 4	
Pens. Prp Acc	196.2	206.5	
Pens. Ind-Lkd. Gilt In.	121.8	128.1	−1.1
Pens. Ind-Lkd. Gt Ac.	132.8	139.7	−1.2
Pens. Dep Initial	183.6	193.3	
Pens. Dep Acc.	215.1	226.4	

Hearts of Oak Benefit Society
129 Kingsway, London WC2B 6NF 01-404 0393

Property Fund	149.3	91 9	
Managed Fund	195.1	207 4	
Pens. Managed Fund	162.5	171 1	

Henderson Administration (z)
26 Finsbury Sq, London, EC2 01-638 5757

High Income	312.5	329.5	+0.5

Liberty Life Assurance Co Ltd
Station Rd, New Barnet 01-440 8210

Sel Sec A	36.2	38.2	+1.2
Managed	28.8	30 4	−0.2
Equity	23.5	24.8	−0.3
Blue Chip	33.3	35 1	−0.4
Special Sits	32.9	34.7	+0.2
International	38.0	40.1	−0.8
European Fund	9.9	10 4	−0.3
American	25.8	27.2	−0 4
Pacific	35.5	37.4	−0.5
Property	26.1	27.5	+0.8
Fixed Yield	23.8	25.1	+0.5
Int Currency	17.3	18.3	−0.2
Deposit	18.4	19 4	+0.1

London A'deen & Nthn. Mtl. Assur. Ltd
129 Kingsway, London WC2B 6NF 01-404 0393

"Asset Builder"	112.3	119.3	

London Indemnity & Gnl. Ins. Co Ltd
18-20 The Forbury, Reading 583511

Money Mkt March 1	123.4	132.5	
MM Flexible March 6	98.5	103.8	

London Life
100 Temple St, Bristol BS1 6EA 0272-279179

Assurances	
Equity	526.2
Fixed Int.	232.3
Property	241.8
Deposit	175.8
Mixed	347.4
Index Stock	127.5
International	179 9
Assurances—Series A	
Equity (A)	123.5
Fixed Interest (A)	104.3
Property (A)	107.5
Deposit (A)	104.6
Mixed (A)	115.5
Index Stock (A)	101.0
International (A)	115.7
Pensions	
Equity (P)	460.5
Fixed Int.(P)	263.6
Property (P)	187.4
Deposit (P)	170.7
Mixed (P)	313.6
Index Stock (P)	141.3
International (P)	200.5

London & Manchester Group
Winslade Pk, Exeter EX5 1DS 0392 52155

	Cap	Acc		Bd W/C
Investment Trust Fd(z)	468.8	568.1	+0.9	620.2
Property Fd (z)	124.2	148.2		160.3
Fixed Interest Fd (z)	159.9	190.3	+0.9	230.0

هكذا من الأصل

INSURANCE, OVERSEAS & MONEY FUNDS

Target Life Assurance Co. Ltd.
Target House, Gatehouse Road, Aylesbury, Bucks Aylesbury (0296) 394000

Managed	441.1	464.4	+2.9	—
Property	265.5	279.5	—	—
Fixed Int.	165.5	174.3	—	—
UK Equity	562.9	592.6	—	—
Int. Equity	345.0	363.2	+2.0	—
Deposit	158.9	167.3	+1.8	—
Managed Property	256.0	269.5	—	—
American Eagle	117.4	123.6	+0.5	—
Technology	111.7	117.6	+0.6	—
Worldwide Income	181.2	190.8	−0.9	—
Pacific	181.6	191.2	+2.1	—
Australian	93.2	98.2	−0.8	—
Japan	303.1	319.1	−1.7	—
Commodity	120.3	126.7	+3.9	—
Gold	157.7	166.1	+0.9	—
Financial	213.8	225.1	+1.3	—
Income	259.8	273.5	+0.1	—
Special Situations	245.2	258.2	+2.9	—
Preference	144.8	152.5	+0.6	—
Managed Currency	94.2	99.2	—	—
European Spec. Sits.	190.0	200.0	+1.5	—
Sterling	10.3		—	—
Residential Property	99.6	104.9	+0.1	—
Pension Funds				
Managed Pension	1354.8	1426.2	+12.4	—
Gilt Pens.	372.1	391.7	+0.3	—
Property Pens.	740.4	779.4	+6.5	—
Equity Pens.	699.2	736.1	+6.9	—
Index-L. Pens	129.8	136.7	+0.3	—
Secur. Pen.	263.3	277.2	+0.1	—
Leicester Retirement	172.1	181.2	—	—

Prices quoted are for Accumulation units.

Teachers' Assurance Company Ltd
12 Christchurch Rd, B'mouth BH1 3LW 0202 291111

Managed Fund	191.7	201.8	—	—
Gilt & Fixed Int Fd.	142.5	150.0	—	—
Cash Fund	124.7	131.3	—	—

Transatlantic Life Assur Co Ltd
8 Ned Rd, Chatham, Kent Medway 812348

LACOP Units	517.60	18.53	—	—

Trident Life Assurance Co Ltd
London Road, Gloucester 0452 500500

Managed	338.7	351.4	+0.6	—
Gtd. Mgd.	302.9	318.9	−0.4	—
Property	327.0	344.4	—	—
American	261.5	275.4	+0.1	—
UK Equity Fund	381.0	401.1	+2.3	—
High Yield	452.2	476.1	+1.2	—
Gilt Edged	264.9	279.0	−1.0	—

[illegible]

The Perchaster Group
91 Wimpole Street, London W1M 7DA 01-495 9090

Perchaster Managed Funds

Albany (z)	120.9	127.2	—	—
Cornhill (z)	106.5	112.5	−0.5	—
Irish Life (z)	119.2	125.5	—	—
Royal Heritage (z)	106.2	111.8	−0.6	—
Schroder (z)	102.3	107.6	−0.1	—
Skandia (z)	121.7	128.1	−0.4	—
Target (z)	124.8	131.4	+0.4	—
Trident (z)	119.2	125.0	−0.2	—
Perchaster Managed Pension Funds				
Albany (z)	133.4	140.4	+0.1	—
Schroder (z)	100.2	105.4	—	—
Skandia (z)	129.3	136.1	−0.4	—
Target (z)	117.7	123.9	+0.1	—

Managed by Perchaster Securities Limited

Sharp (Albert E.) & Co
12 Newhall Street, Birmingham B3 3ER 021-236 5801

Man-Clerical Mrd.	129.2	136.0	+0.4	—
Pens. Man-Schroder	515.5	542.6	+0.6	—

Towry Law & Co
57 High St, Windsor, SL4 1LX 0753 868244

Clerical & Medical (z)	106.5	112.2	—	—
Guardian Royal Exch	100.5	105.8	−0.5	—
M&G Ass (Life)	117.6	123.8	—	—
M & G Ass (Pens)	136.0	142.9	—	—
Norwich Union Ass Mgr	55.1	58.1	+0.8	—
Royal Life (Unit.Lk.Ass)	108.5	114.2	—	—
Scot Equitable (Life)	151.0	158.9	—	—
Scott Equitable (Pens)	104.0	109.5	—	—
Scot Mutual (Life)	157.2	165.5	+0.4	—
Scot. Mutual (Pens)	143.0	150.6	+0.5	—
Vanbrugh Life Ass.	120.1	126.5	—	—

J. D. Ward & Co Ltd
55 Lincoln's Inn Fields, WC2A 3LX 01-242 2263

Target Mngd Bond	196.8	207.2	—	—
Target Mngd Pension	128.3	135.1	—	—
Albany Mngd Bond	162.8	171.3	+0.3	—
Albany Mngd Pension	205.5	216.3	+0.5	—

Yorkshire & Lancashire Investment Mgt.
2 Parson Lane, Clitheroe, BB7 2JN 0200 28066

Growth & Income (RH)	177.6	187.0	—	—
Ultra Bond (Roy H)	147.8	155.6	—	—
Flexible Managed (Hea)	147.4	155.2	—	—
Global Managed (Schr.)	134.7	141.7	—	—
Pension Fund (Roy.H)	122.4	128.9	—	—

OFFSHORE AND OVERSEAS

[illegible]

Money Market Trust Funds

[illegible]

Money Market Bank Accounts

[illegible]

Western Trust & Savings Limited
The Moneycentre, Plymouth PL 1BE 0752 224141

High Int Chq Acc	10.25	7.69	11.10	Qtr

Wimbledon & South West Finance Co Ltd
114 Newgate St, London EC1A 7AE 01-606 9485

High Int Cheque Acc	11.25	8.41	12.23	Qtr

NOTES—Gross: rate to those exempt from composite rate of tax. Net: actual rate after deduction of CRT. Gr Equiv CAR: Gross equivalent to basic rate taxpayers—compounded annual rate. Int Cr: frequency interest credited.

NOTES

Prices are in pence unless otherwise indicated and those designated $ with no prefix refer to U.S. dollars. Yields % (shown in last column) allow for all buying expenses. Prices of certain older insurance linked plans subject to capital gains tax on sales. a Offered prices include all expenses. b Today's prices. c Yield based on offer price. d Estimated. g Today's opening price. h Distribution free of UK taxes. p Periodic premium insurance plans. s Single premium insurance. x Offered price includes all expenses except agent's commission. y Offered price includes all expenses if bought through managers. z Previous day's price. ¶ Guernsey gross. ‖ Suspended. ♦ Yield before Jersey tax. † Ex-subdivision. ‡‡ Only available to charitable bodies. ♦ Yield column shows annualised rates of NAV increase. xd ex dividend.

TRADITIONAL OPTIONS

3-month call rates

Industrials	p		
Allied-Lyons	35	NEI	8
Amstrad	16	Nat West Bk.	55
BAT	47	P & O Dfd	55
BOC Grp.	42	Plessey	20
BSR	12	Polly Peck	20
BTR	30	Racal Elect	20
Babcock	19	RHM	30
Barclays	47	Rank Org Ord.	55
Beecham	48	Reed Intnl	42
Blue Circle	62	STC	20
Boots	25	Sears	12
Bowaters	37	TI	55
Brit Aerospace	58	TSB	8
Brit. Telecom	20	Tesco	42
Burton Ord	23	Thorn EMI	50
Cadburys	22	Trust Houses	20
Charter Cons.	30	Turner Newall	24
Comm Union	29	Unilever	150
Courtaulds	35	Vickers	55
FNFC	20	Wellcome	50
Gen Accident	80	Property	
[illegible]	18	Brit Land	17
Glaxo	118	Land Securities	30
Grand Met	40	MEPC	32
GUS 'A'	100	Peachey	30
Guardian	85	Oils	
GKN	30	BOM	$3\frac{1}{2}$
Hanson Tst.	15	Brit Petroleum	60
Hawker Sidd.	50	Burmah Oil	38
ICI	80	Charterhall	4
Jaguar	52	Premier	4
Ladbroke	40	Shell	75
Legal & Gen	25	Tricentrol	11
Lex Service	35	Ultramar	17
Lloyds Bank	48	Mines	
Lucas Inds	55	Cons Gold	65
Marks & Spencer	18	Lonrho	24
Midland Bk.	55	Rio T Zinc	65
Morgan Grenfell	35		

A selection of Options traded is given on the London Stock Exchange Report Page.

LONDON SHARE SERVICE

BRITISH FUNDS

"Shorts" (Lives up to Five Years)

Five to Fifteen Years

Over Fifteen Years

Undated

Index-Linked

INT. BANK AND O'SEAS GOVT STERLING ISSUES

CORPORATION LOANS

COMMONWEALTH & AFRICAN LOANS

LOANS

Building Societies

Public Board and Ind.

Financial

FOREIGN BONDS & RAILS

AMERICANS

AMERICANS—Cont.

CANADIANS

BANKS, HP & LEASING

Hire Purchase, Leasing, etc.

BEERS, WINES & SPIRITS

BUILDING, TIMBER, ROADS

BUILDING, TIMBER, ROADS—Cont

CHEMICALS, PLASTICS

DRAPERY AND STORES

DRAPERY & STORES—Cont.

ELECTRICALS

ENGINEERING

ENGINEERING—Continued

FOOD, GROCERIES, ETC

HOTELS AND CATERERS

INDUSTRIALS (Miscel.)

INDUSTRIALS—Continued

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INDUSTRIALS—Continued

Dividends Paid		Stock	Price	Last xd	Div Net	C'vr	Y'ld Gr's	P/E
Feb	Aug	Monks & Crane 10p	128	22.12	L2.7	2.9	3.0	15.6
Jan	July	Morgan Crucible	326	10.11	18.5	1.5	3.7	21.7
		Morris (W) F.A. 20p	21	—	—	—	—	—
July	Oct	Myson Grp 10p	201	29.9	†2.63	2.6	1.8	25.9
Nov	June	NMW Computers	315	13.10	†6.0	3.0	2.7	18.1
Mar	Sept	Nash Inds	192	26.1	1.9	2.6	1.1	48.7
—		Neil & Spencer 10p	18	3'81	—	—	—	—
Jan	July	Newman Inds 10p	47	15.9	†0.8	1.5	2.4	38.9
Apr	Sept	Noble & Lund 10p	84	29.9	0.7	4.3	1.2	27.7
—		Nobo Group 10p	171	—	†4.75	2.8	3.9	13.0
April	Dec	Nolton	52	24.11	1.2	2.9	3.3	14.9
Oct	June	Norank Systems 5p	168	15.9	m1.5	—	1.3	21.5
Jan	Aug	Norcros	382	22.12	†9.3	2.3	3.4	17.5
Oct	April	Nu-Swift 5p	307	27.10	†3.5	2.1	1.6	41.3
May	Nov	OCE 9pc Cnv 1987-92	£247½	27.10	Q9%	—	f3.7	—
Dec	Aug	Oakwood Grp	195	26.1	4.0	0.6	2.9	75.0
Dec	July	Office & Elect	201	27.10	8.5	2.9	6.0	8.2
—		Omnitech 1p	53	—	—	—	—	—
—		Optometrics $0.01	28	—	—	—	—	—
May	Nov	Oriflame £1	925	29.9	29.5	♦	4.6	♦
Jan	June	Overstone 12½p	7½	12.5	q03.23c	1.9	13.4	3.9
Oct	June	PCT Grp 10p	150	15.9	d3.2	—	4.4	—
		PLM 'B' Sk 25	£19⅞	5.85	Q24%	♦	3.1	♦
	June	Pacer Systems $0.01	208	25.4	Q5c	♦	1.6	♦
	June	Pacific Dunlop $0.5	208	21.3	†Q11.36c	2.1	2.3	20.9
Apr	Dec	Pacific Sales 10p	70	15.9	3.0	1.4	6.0	16.7
Apr	Nov	Parker Knoll 'A'	592	29.9	†12.0	3.2	2.9	15.4
		Parkfield Group 2p	246	26.1	†3.6	4.2	2.1	15.7
—		Passon Intl	29	—	—	—	—	7.7
Aug	Feb	Do 11pc CuLn '94-02	£92½	9.2	Q11%	—	Q11.9	—
June	Nov	Pearson	589	15.9	†10.0	2.8	2.4	19.2
—		Peak Holdings 5p	75	—	—	—	—	—
Mar	Oct	Peerless	202	26.1	♦†6.5	2.0	4.4	(13.3)
July	Oct	Pentland 10p	650	15.9	†10.75	22.4	0.2	56.8
May	Dec	Photo-Me	£12½	23.2	†5.75	11.7	0.6	16.5
Feb	Aug	Pilkington Br. £1	748	22.12	F22.0	2.3	4.1	(11.9)
		Do. Warrants	348	—	—	—	—	—
June	Dec	Pitney-Bowes Cns. Ln.	£567½	8.12	Q5½%	—	1.0	—
Sept	April	Plastic Const. 10p	66	11.8	†2.8	1.3	6.0	17.3
—		Platignum 5p	11	5'82	B—	—	—	19.0
[illegible]								

LEISURE—Continued

Dividends Paid		Stock	Price	Last xd	Div Net	C'vr
January		Leisure Inv 10p	97	8.12	0.36	7.4
Jan	July	Leisuretime Int 10p	86	11.8	†2.3	0.9
Jan	July	Lewmar	113	8.12	u2.63	3.4
—		Marina Dev. 50p	119	—	♦R3.13	3.0
—		Mecca Leisure 10p	189	—	t4.1	1.8
Mar	Oct	Media Tech Int 20p	150	23.2	2.8	4.5
Apr	Dec	Medminster 10p	173xd	9.3	†6.25	1.9
February		Midsummer Leis 50p	259	22.12	4.0	3.9
Oct	May	Miss World 10p	200	1.9	6.0	♦
May	Oct	Nationwide Leisure	76	12.5	♦—	—
—		Nimslo Int 20c	11	—	—	—
—		Omnicorp Ins. N$30.5	55	—	Q0.5c	8.0
—		Orient Ex Hlt. $0.125	222	1'84	—	—
—	July	Owners Abroad 5p	58½	28.4	a1.8	♦
—		Photax (Lon.)	110	4'82	—	—
Apr	Sept	P'dilly Radio NV 5p	73	23.2	2.0	1.4
—		Pineapple 10p	8	12'84	—	—
Sept	Apr	Pleasurama 5p	346	11.8	†7.5	3.6
Sept	Mar	Do. 7pcCvCnvRedPf	156	23.2	7%	—
Apr	Nov	Prestwich	231	27.10	†0.85	6.9
—		Radio City 'A' NV	93	12'84	—	—
Jan	July	Radio Clyde N/V	98	22.12	3.5	1.6
May	Nov	Really Useful Grp 5p	458	27.10	11.25	2.2
—		Riley Leisure 10p	60	10'84	—	—
Apr	Nov	Saga Hols. 20p	164	28.7	4.6	2.6
Apr	Nov	Samuelson Grp 20p	175	23.2	2.4	6.5
Jan	July	Sangers Photo 10p	101	10.11	♦12.2	1.5
July	Dec	Scantro 20p	117w	27.10	u4.0	3.5
Dec	May	Scott. TV 10p	463	27.10	†10.5	3.3
—		SelecTV 10p	19	—	—	—
—		Spectrum 5p	22	—	—	—
Feb	July	Stanley Leisure	265	12.1	u3.25	2.8
May	Nov	TSW 5p	73	13.10	2.05	2.6
Dec	May	TV-am 10p	326	27.10	R5.75	2.6
Mar	Aug	TVS N/Vtg 10p	375	9.2	10.0	♦
May	Oct	Television Svcs 50p	78	29.9	†2.0	2.9
Jan	July	Thames TV	461	24.11	†9.5	1.9
Apr	Nov	Tottenham Hotspur	99	16.9	—	—
Feb	Aug	Trilion 10p	116	26.1	1.1	3.5
Dec	June	Tyne Tees TV 'A' £1	494	15.9	18.75	♦
[illegible]						

MOTORS, AIRCRAFT TRADES

[illegible]

NEWSPAPERS, PUBLISHERS

[illegible]

PAPER, PRINTING, ADVERTISING

[illegible]

INSURANCES

[illegible]

LEISURE

[illegible]

PROPERTY

[illegible]

PROPERTY—Continued

[illegible]

SHIPPING

[illegible]

SHOES AND LEATHER

[illegible]

SOUTH AFRICANS

[illegible]

TEXTILES

[illegible]

TOBACCOS

[illegible]

TRUSTS, FINANCE, LAND

Investment Trusts

[illegible]

INVESTMENT TRUSTS—Cont.

[illegible]

Finance, Land, etc

[illegible]

FINANCE, LAND—Cont.

[illegible]

OIL AND GAS

[illegible]

OVERSEAS TRADERS

[illegible]

PLANTATIONS

Rubbers, Palm Oil

[illegible]

Teas

[illegible]

MINES

Central Rand

[illegible]

Eastern Rand

[illegible]

Far West Rand

[illegible]

MINES—Continued

O.F.S.

[illegible]

Diamond and Platinum

[illegible]

Central African

[illegible]

Finance

[illegible]

Australians

[illegible]

Tins

[illegible]

Miscellaneous

[illegible]

THIRD MARKET

[illegible]

NOTES

[illegible]

REGIONAL & IRISH STOCKS

[illegible]

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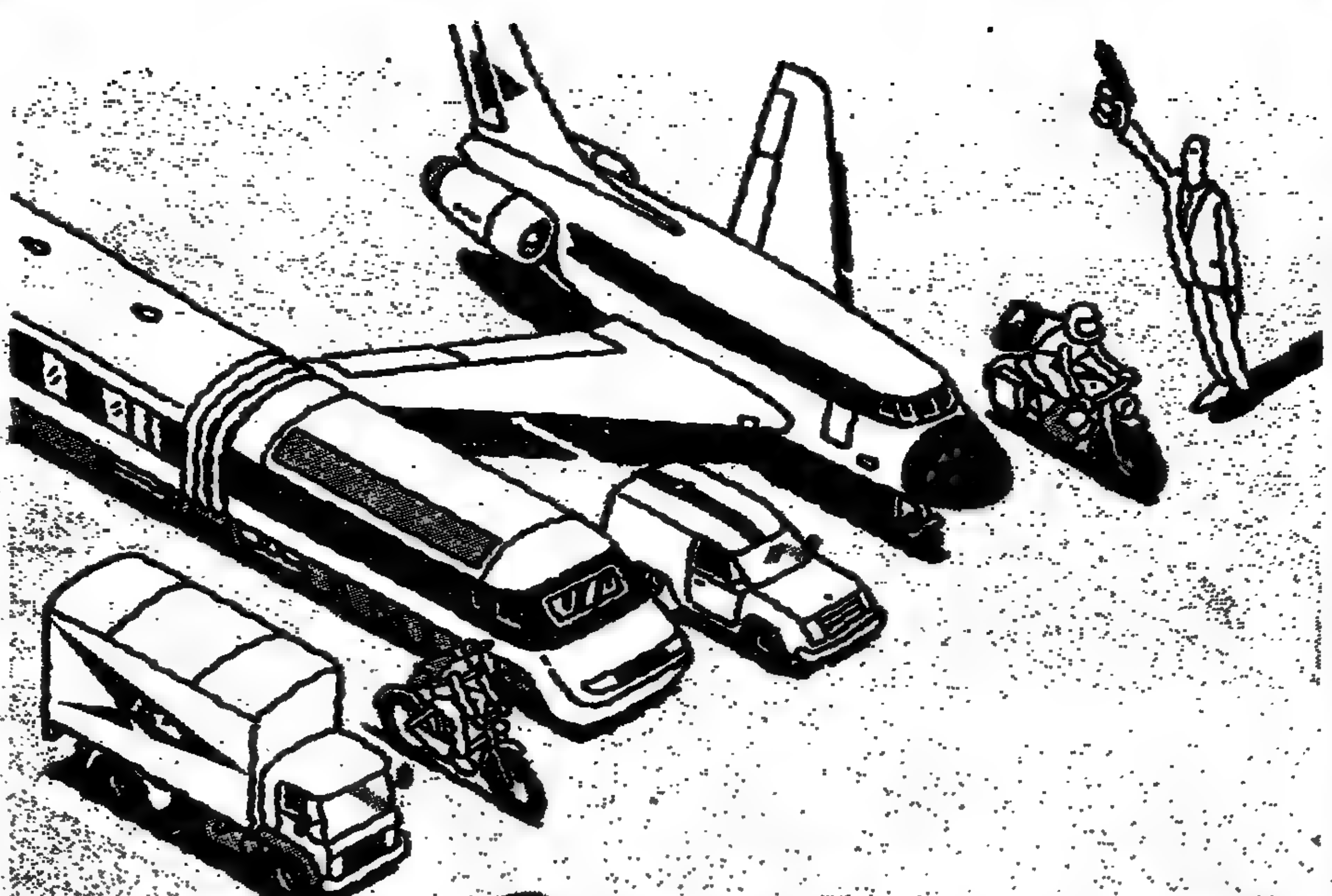
FINANCIAL TIMES SURVEY

Documents and parcels are being moved faster throughout Europe by a variety of companies in fierce competition to win business. Powerful US and Australian groups are pushing into an expanding market and strongly challenging European operators, increasing the spread and number of services on offer. **Kevin Brown** reports.

CONTENTS



Courier and Express Freight Services

Tough battle for market shares

THERE HAS been an explosion of growth in the courier and express freight market in the last couple of years as companies rush to meet demand created by changes in distribution and in the communications requirements of the business community.

The wide range of overnight and 48/72-hour services now available within Europe, both for documents and parcels, enables companies to move items ever faster between one location and another.

Anything from a couple of sheets of paper, to television sets and industrial parts, in packages from a few grammes to 30 kilos and more, can be collected and delivered swiftly and reliably for a price that attracts increasing numbers of customers.

The fastest growth has been in the international sector, especially within the European Economic Community, and this seems likely to continue to dominate the marketing strategies of the bigger companies.

The key in this sector is the aggressive attempts to build market share by overseas companies, mostly from the US and Australia, which have outgrown their domestic base.

There is no doubt that European competitors have been put under great pressure by this overseas invasion, which is being mounted by companies with great financial resources and management strengths.

The potential for growth in the European market is so immense, however, that most observers are agreed that there should be a place in it for most of the companies now fighting to establish themselves.

Riding on the strength of the expansion of the international sector there has been a major increase in the number of local companies offering courier services by van and motorcycle, especially in London, where the number and speed of motorcycle services is now beginning to threaten pedestrians' safety.

Although there is widespread agreement that the market for courier and express services in Europe is growing fast, there is no consensus on the speed of growth, or on the total value of business being done.

The position is complicated, too, by the division of the market into express and courier services, and into local, national and international sectors.

The best guess has been that the market is worth about £350m a year—a fraction of the $7bn a year North American market, where the population is of a similar size.

This estimate really is a guess, however, since the industry is too young to have attracted much attention from the statisticians who could provide more accurate figures.

Government departments, which provide official insight into what is happening in many industries, have also been slow to wake up to the birth of a new business.

The British Departments of Transport and Trade and Industry, for instance, can produce comprehensive figures for the amount of freight passing through British ports by road, air and sea—but have no idea how much of it is classified as express deliveries.

Some leading figures in the industry suspect that the total market is already substantially bigger than the £350m estimate, and that a large proportion of business being done is not reflected in this estimate.

This suspicion is borne out by the turnover of the two market leaders—the European arms of the Californian DHL corporation and the Australian TNT group—which together account for more than £300m a year.

A more accurate estimate is difficult to arrive at, however, since some of the major players, including the Royal Mail's courier offshoot Datapost, and British Rail's Red Star express parcels service, refuse to reveal turnover figures.

Estimates of market growth also range from 20 to 50 per cent a year, though there is some agreement about the fastest-growing areas.

Broadly, the position appears to be that demand in Greece, Portugal and Spain—the newest members of the Community—is growing fastest, although from a very low base, while demand in France is said to be very good, and in West Germany steady.

There is also substantial demand in the UK—the biggest single market, with annual business in excess of £50m—and on the fringes of the Community in Switzerland, Austria and Scandinavia.

What is clear is that courier and express services are products that thrive on publicity and depend for growth on increasing public awareness.

Experience in the US has shown that services in both sectors are likely to take some time to catch the public imagination, but when they do the potential for expansion is enormous.

Federal Express, the market leader in the US, lost £1m a month in its first year, for instance, but now has a 53 per cent share of a US market that has grown from a few hundred million dollars in 1973 to more than $7bn.

It is for this reason that the entry into the European market of Federal and other US giants such as United Parcel Service is welcomed by some of the more perceptive local managers.

Mr Alan Jones, European general manager for DHL, which has been operating in Europe for 12 years, says the addition to the total advertising and marketing budget of the industry can only benefit everyone—especially, of course, those companies which already have a substantial market share.

Mr Alan Watson, deputy managing director for the European operations of Australia's TNT group, says the potential for expansion is almost infinite as more and more business users recognise the advantages express services can offer.

US experience has shown, too, that the industry benefits from a bandwaggon effect as companies find they have to use express services to remain competitive.

Mr John Payne, head of Datapost, has no doubt that this will happen in Europe as well.

"The very expense of courier services has led customers to trade up their expectations," he says.

The high growth of the last few years was triggered by the effects of recession, which increased pressures on companies to be competitive, which meant having documents and components in the right place at the right time, and not a few days later.

There have also been major changes in the pattern of distribution, partly caused by the high interest rates of the early 1980s, and the reluctance of manufacturing and distribution companies to maintain high levels of stocks.

One of the major inhibiting factors on growth in the European market has been the complexity of customs requirements for goods crossing international borders—even within the European Community.

This problem should ease over the next few years as the EEC moves towards completion of the so-called common internal market—a process which is scheduled to be completed by 1992.

Even when this process is complete, there will still be external barriers to important markets such as Austria, Switzerland, and much of Scandinavia.

This means that the successful competitors will be those which can offer expertise and speed in coping with the requirements of different governments.

"The problem is one that some of the newer companies in the market have not yet fully appreciated," says one manager. "Europe has the potential to be as big a market as the US, but it is absolutely fundamental that carriers are able to cope quickly and efficiently with customs requirements.

"It is no good being able to get documents or packages across one or more international borders overnight if they are then going to be held up for hours or even days by customs requirements."

This means that companies have to build up expertise in dealing with the requirements of each country in which they operate—which can be expensive and time-consuming.

Mr Frederick Smith, chairman and founder of Federal Express, admits that this problem cannot be quickly overcome and is bound to slow down the development of Federal's European operations.

"We believe there must be modifications to the customs system in Europe to promote the kind of transport systems we are talking about," he said at Federal's Memphis headquarters.

"We spend a lot of time talking to customs officials about this, but the important thing is that the trends of the industry are pushing customs services everywhere in the direction of expedited services.

The future which the courier and express parcels business sees for itself is a bright one, but it does depend on continuing to convince the business world that fast physical communications are an asset it cannot do without.

Once this becomes the standard by which companies do business, competitive pressures will ensure there is no going back to the more leisurely methods of an earlier age.

Domestic services

Big expansion in operations

Two-hour delivery service of packets and parcels in London

SAME DAY, next-day, two-day—the range of service options available for the express movement of parcels and general freight around the UK has expanded dramatically over the past few years.

Some of the larger service operators have refined the options still further to offer even more time-specific products, particularly for overnight movements where customers can choose between services offering before 9 am delivery, before 10.30 am and before noon as well as general next-day delivery.

Saturday delivery options have also become more common, although as with guaranteed next-morning deliveries, they can attract premiums of 50 per cent and more over standard rates. Published tariffs tend in any case to be fairly "negotiable" at least where larger volume business is concerned.

Adding to the confusion for potential customers seeking the most suitable equation of service level and rates for their particular needs is an escalating barrage of marketing hype from an industry which has already seen enormous growth during the 1980s. One leading operator recently estimated that UK domestic parcels business (packages of up to 50 kilos consigned to a third party carrier for delivery to a business address) currently involved the movement of 390m packages a year in a market worth just over £1,000m.

As the market has grown, so not surprisingly has the competition for that business—the number of companies claiming to offer nationwide express delivery services has risen from half a dozen five years ago to more than two dozen at the beginning of this year. Added to that is an army of local and regional operators.

The fierce competition which has resulted from that rapid growth in numbers has already produced casualties. The powerful National Freight Consortium, for example, last year merged its two parcels carriers to form one company, National Carriers Roadline, and the Transport Development Group is currently deciding the future "operational relationship" between its two domestic parcels carriers, Tuffnells Parcels Express and Independent Express.

Other operators have been bought by large industrial organisations looking to establish a presence in a major growth market. Examples over the past couple of years have included Bunzl's acquisition of United Parcels, Parceline's change of ownership from the De La Rue organisation to Australian transport giant Mayne Nickless and, within the past few months, the purchase of previously independent franchise operator ANC by the B&C Group.

According to Mr Ken McCall, general manager express parcels for TNT Road Freight: "The overnight market is continuing to experience a severe price-cutting war and the next 12 months are going to be a time of reckoning for many carriers. A number of companies will have to produce returns this year after several years of unacceptable losses."

Other operators, though, maintain that the rate-cutting situation is generally not as bad now as it has been in the recent past.

Another debate in the UK express market concerns the level of service which customers really need or want. All operaors agree that reliability and guaranteed delivery times are key requirements but there is a difference of opinion, fostered to a great degree by the companies themselves, over whether the real need for many customers is the heavily promoted overnight services or two/three-day deliveries.

Ken McCall of TNT says the TNT Overnite operation is still very much the flagship of the company.

"More companies will see the need for a quicker delivery service as deadlines get tighter and the more efficient companies progress. Equally, the overnight market has to expand. The rapid growth of our TNT Sameday service in the past 12 months is a good indicator of where the market is going," he says.

Putting the other side of the argument, Mr Peter Robinson, marketing manager for Tuffnells Parcels Express, says 85 per cent of the company's domestic consignments are delivered via its Premium Express service, a non-guaranteed next-day service with a next-day success rate of 75-80 per cent, and 95 per cent delivered in 48 hours.

"Our argument is that a lot of companies are over-buying on distribution. Often they do not need a guaranteed next-day service. What they really need is a fast and reliable delivery. Many of our customers use Premium Express for the vast majority of their consignments and our guaranteed overnight service for the urgent last-minute stuff," he says.

Though figures for the amount of business are hard to find, Mr Graham Roberts, managing director of National Carriers Roadline, says company managers have estimated that for the NFC's financial year to the end of September 1986, total value of the UK express parcels market is about £1,005m. Of that total, overnight/nextday services contributed £375m; other guaranteed services such as 2-3 day deliveries, £90m; and non-guaranteed, £540m.

For the current financial year, to end September 1987, they suggest the value will grow by eight per cent to £1,085m. The new breakdown would see overnight /nextday services contribute £441m, up 18 per cent; other guaranteed services £111m, up 23 per cent; and non-guaranteed, £533m, down one per cent.

Promotion of the different service levels in the UK has produced a major marketing battle. Faced with the powerful challenge of relatively new operators such as TNT and Elan, previously established UK parcels/courier organisations have had to sharpen their whole approach to the express business.

For example, the long-time sleeping giant, Securicor, last year merged all its courier and parcel services under the general heading Securicor Express, and launched a substantial marketing push in the UK with a before-9 am delivery service promoted under the name Swifty.

Last year also saw the Royal Mail's high-speed courier operation, Datapost, adopt a much higher profile with services offering guaranteed overnight delivery by 10 am to more than two-thirds of the UK and the provision of free physical and consequential loss insurance cover.

In January, Royal Mail Parcels stepped up its promotion with the launch of a new initiative called The Business Programme, basically a package offering bonuses to encourage contract customers.

Still to come is an expected major market push by Federal Express, the US parcels giant, following its takeover of Lex Wilkinson of the UK and the subsequent creation, in November, of Federal Express UK.

Apart from marketing, the other great battle on the UK express freight scene is being fought in the area of communication and information technology. Service operators are developing ever more sophisticated computer-based systems to speed up the processing of information as well as the actual parcels.

One of the increasing number of express parcel aircraft

European services

Delivery schedules increasing

PRE-EMPTING current political moves to make the European Community one market in fact as well as in theory, express freight operators are already well on the way to establishing delivery schedules for international movements within Europe on a par with those for domestic services.

That trend is highlighted by a rapid growth in the number of express-related overnight air operations between the United Kingdom and the Continent as service operators seek to offer guaranteed transit times of 24/48 hours for the through movement of documents, parcels and even larger items between different European countries.

Express service companies are increasingly using aircraft as the longhaul links in fully-integrated transport systems which also involve road transport collection/delivery operations at either end of the air routes.

In some ways, the pattern of operation for UK/Continent fast freight movements has swung full circle over the past decade. Until the late 1970s and the arrival in Europe of Australian parcels specialist Ipec, now TNT Ipec, with its famous yellow-liveried express delivery vehicles, urgently-needed freight tended to move by air on scheduled airline services.

The problem was that while the freight travelled quickly through the air, it was usually held up for several days by handling and customs delays on the ground at either end, making for fairly slow final deliveries. Ipec and others convinced the European freight market that road-based express services could provide faster door-to-door movements than the airlines.

By the early 1980s, fleets of express vehicles were providing 48/96-hour delivery services between the UK and much of Continental Europe. Even that sort of transit speed, though, was not deemed fast enough and over the past couple of years more and more operators have been turning to aircraft to enable the development of 24-hour, door-to-door deliveries, at least between major European centres.

TNT Ipec, for example, now uses a chartered Boeing 737 freighter to maintain nightly Ireland/UK/West Germany air links. From about May, that aircraft will be replaced by a British Eerospace 146 jet freighter and the company is already considering the acquisition of further such aircraft.

A major attraction of the BAe 146, according to TNT Ipec's management, is its low noise level, an increasingly important feature in view of the growing environmental considerations associated with night-time flying activities in Europe.

A good illustration of the kind of problems which can arise in that context occurred last year at the southern Netherlands airport of Maastricht, a hub for the overnight air operations of two major express parcels service companies, XP Express Parcel Systems and Emery Worldwide.

A complicated legal wrangle arising from environmentalist objections to aircraft noise threatened XP's plans to expand night-time air operations and nearly led to the company pulling out. In the event, the issue was resolved and XP stayed at Maastricht where it now uses a wide range of aircraft to operate overnight parcels flights to UK, Continental and Scandinavian points. Further air links are likely to be added this year.

Similarly, Emery is likely to expand its Maastricht-based air operations following the setting up last September of a Europe-wide air and truck delivery system centred on the Dutch airport.

Aircraft are used to link that hub with some 15 airport cities in Europe, with other points connected via trucking operations. That development, the company claims, allows it to offer before 10.30 am the next day deliveries for non-dutiable packages to many European cities, and next-business-day deliveries for dutiable items and heavier weight shipments.

Emery is just one of several large US companies now developing their own intra-European air systems. Also expanding rapidly is Federal Express which intends to spend more than $10m over the next 12 months to build up its European operations.

Plans include the opening of offices in another 17 Continental cities before the end of May, to add to the dozen or so already established. So far, Federal Express has relied on a variety of dedicated aircraft operated by other companies to link its European hub at Brussels, Belgium with Switzerland, West Germany, northern Italy and the UK but now the company is looking to set up its own fleet.

Meanwhile, United Parcel Service (UPS) has added a further eight European and Scandinavian countries to an original network of five set up in 1985 for parcels services to and from the US and expanded overnight air operations to connect 17 European cities with its Continental hub at Cologne, West Germany.

Arrival of the Americans on the intra-European express freight scene is already shaking up the market. The US companies are particularly prominent, for example, in the campaign to deregulate the restrictions which still limit express service development in some areas of Europe. Similarly, they and others are pressing hard for the simplification and standardisation of Customs regulations, particularly within the European Community.

However, while European express companies may claim they can compete successfully at present with the US giants on service levels, they are worried that the substantial financial resources of those organisations will allow them to buy their way into the market.

In that context, many European-based operators are already claiming that the US newcomers will cause a rates war, initially using their fast-developing intra-European air operations primarily to feed traffic for longer-haul routes.

Facing up to the challenge, European-based express freight operators have themselves been taking to the air. Elan International, for example, recently added a nightly Dart Herald flight between East Midlands Airport in England and Lille in France to its more established Merchantman freighter operations linking EMA with West Germany and Ireland.

Backed with a substantial expansion of ground coverage on the Continent during 1986, the air links now enable Elan to claim next-morning deliveries for UK traffic to most of West Germany and 24-hour service to 80-85 per cent of France, the Netherlands, Belgium, Luxembourg and Ireland.

Meanwhile, Netherlands-based Pandalink is this year stepping up development of its hub operation at Brussels.

A number of the more established UK parcels service companies are also increasingly using aircraft to speed up their European delivery services. For example, the rail-based organisation Red Star has already this year upgraded services from the UK to the Benelux countries, France, West Germany and Switzerland with the introduction of nightly air operations out of Southend to Brussels and Basle. In addition, European coverage has been expanded to include Scandinavia using flights between Southend and Copenhagen. Similarly, Securicor, which uses a nightly Dart Herald flight between Birmingham and Brussels to help maintain next day/two-day parcels delivery services to the Benelux countries, West Germany and France, last year further extended its European air operations with the addition of a Brussels-Nuremburg flight.

Not all express operators, though, are switching over to air transport. Some companies such as Barking-based Seabourne European Express, for example, rely on road transport rather than aircraft to maintain services.

Philip Hastings

Couriers

Broader scope of services

HAVING INITIALLY made their reputation as carriers of urgently-needed documents and small items such as samples, international courier companies are now rapidly broadening the scope of their operations to take in other areas of business.

Many courier organisations are introducing services to cater for larger parcels, while others are pressing on with the development of facsimile and electronic mail operations. Increasingly, operators talk about their "air express" rather than "courier" services to put over the message that they are now handling the worldwide distribution of parcels, general freight and bulk-mail as well as more traditional document-type traffic.

Courier organisation DHL, for example now tends to market its operations under the banner DHL Worldwide Express to emphasise the coverage of more general air express activities.

International courier services offering fast door-to-door or desk-to-desk movement of documents and other urgently-needed smaller items really sprang to prominence during the 1970s as the developed areas of the world, notably Europe, North America and the Far East, increasingly began to trade with emerging markets in regions such as the Middle East, Africa and Latin America.

In many cases, traditional methods of sending urgent items, for instance by post, proved unreliable for countries where transport and communications systems were often in their infancy.

With exporters and traders desperate to find reliable ways of moving documents, samples and spare parts quickly from one part of the world to another, private companies moved in to fill the gaps left by international postal systems. Courier organisations developed their own international networks of offices to facilitate controlled desk-to-desk deliveries using the fastest mode of transport available and their own staff of agents at all stages in the movement from collection to final delivery.

The rapid growth in that business and its more recent expansion to include parcels and other freight can be gauged by recent industry estimates which suggest the worldwide express market is now worth $2.5bn a year, of which the US accounts for about 50-60 per cent. Much of that development is attributed to the lifting of restrictions on air cargo transport which has resulted in the rapid development of a vast range of air-based express services.

The European market has also grown rapidly over the past few years and is now reckoned to be worth some £300m-£350m a year. Largest single market in Europe is said to be the UK, with an annual figure currently running at about £85m. The UK market has in fact grown substantially since air courier operations were exempted from the postal monopoly some six years ago.

Increasingly, that growth involves larger parcels of 30-100 kilos and even general freight as well as documents and smaller packages. Customers who have grown to rely on fast door-to-door movement of their documents are now also looking for the same sort of service for other traffic. DHL, for instance, now offers three different worldwide services—for documents and non-dutiable items up to 30 kilos per package, for dutiable and declarable items up to 30 kilos per individual package, and fast door-to-door deliveries of heavy and bulk consignments.

Mr Nick Nelson, DHL's UK managing director, says, "In the past we made our name as a courier company but over the past year we have made efforts to lose the name 'courier' which tends to conjure up the image of someone sitting on an aircraft with a bag strapped to their wrist. That image served its purpose, but now we have introduced parcels and freight services we want to position ourselves as an express freight transport company."

Currently, only some 30-35 per cent of DHL's traffic comprises dutiable traffic, of which 80 per cent is smaller parcels up to about 25 kilos. However, according to Mr Nelson, the proportion of dutiable to non-dutiable traffic is growing all the time and this year the company is also taking specific steps to encourage more heavier weight shipments.

"One initiative we are taking this year is to adjust our pricing structure to try to attract business from people who are currently using forwarders' consolidation services. During March, we are bringing out a new tariff designed to encourage larger consignments."

Following a similar path is UK-based IML Air Couriers which claims to have the world's third-largest courier network. With parent group IML Air Services already involved in general airfreight business through the forwarding activities of IML Air Cargo, the courier company is looking to expand the scope of its own operations.

"At the moment, as a courier company we have a theoretical limit of 30 kilos per item although we will handle anything. We obviously have a desire to move into heavier weights and we will be gearing our tariffs to attract more of that sort of traffic," says Mr David Tanner, managing director of IML Air Services Group.

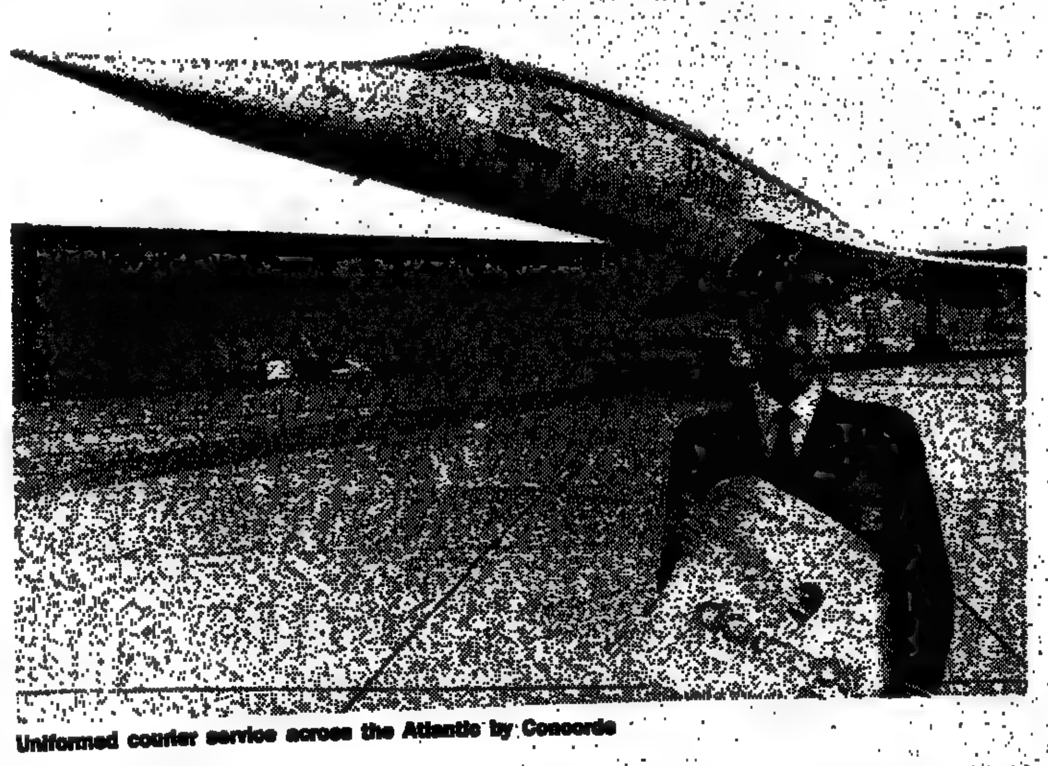
Looking to become more involved with the handling of larger items in a slightly different way is Heathrow-based wholesaler Inflight Courier Co-load which has to date made its reputation providing international linehaul services for other couriers rather than selling direct to shippers.

Mr Paul Barnes, Inflight's UK managing director, says the company is now moving towards offering an express parcels network to couriers and agents as well as its well-established courier traffic facilities.

"We already carry some parcels for forwarders and we are looking to do more of that sort of work for airfreight agents who need an express parcels service. As we only operate as a wholesaler, we are looking to attract parcels from forwarders who need to be able to offer their customers express services but do not want to give their traffic to other express companies who might be their competitors," Mr Barnes says.

In addition to catering increasingly for larger items, courier companies also want to develop a number of other areas, including facsimile and electronic mail services. DHL, for instance, already has an electronic document service (EDS) operational in various parts of the world and is now introducing it to the UK.

Basically, a courier collects the document from any UK location and takes it to DHL's EDS base at London Heathrow. The document is then transmitted, using high-speed electronic equipment, to another DHL international office which then arranges delivery to the consignee.



Uniformed courier service across the Atlantic by Concorde

"The electronic document service is positioned alongside our worldwide document express service to allow us to offer overnight deliveries to markets where time-change factors would not otherwise allow us to do so," Mr Nelson says.

He sees electronic transmission as an enhancement of existing express services. Research by the company suggests that the courier movement of documents will continue, both for reasons of security and because of the size and bulk of many documents—average weight of DHL's document consignments is put at about 1.5 kilos.

Mr Derek Moore, franchise director for IML Air Couriers, says: "If someone has one or two sheets of information to send they may well fax them, but if more than a few sheets are involved then they will probably carry on using courier services."

Other areas of business being looked at by courier companies include that of remail, an operation designed to attract business from companies sending large quantities of direct mail to international destinations. By consolidating such mail for the movement between countries, courier companies claim to be able to offer rates below those charged by postal authorities.

Phillip Hastings

Traditional operators find themselves in a new and cut-throat market

Backed by extensive networks

Red Star office: under the British Rail umbrella

THE RAPID expansion of the courier and express parcels business has posed difficult problems for British Rail's Red Star service and the Royal Mail Datapost system.

Both organisations were well established in their respective fields when the boom began in the early 1980s, but both were also handicapped by association with the sometimes poor publicity surrounding their parents.

Executives of both Red Star and Datapost will admit that bad publicity for British Rail and the Post Office inevitably affects their attempts to win business in a new and cut-throat market. But they also point out that the extensive infrastructure networks established by both parent organisations over the years offer the prospect of built in advantages over the privately-owned competition.

Mr John Payne, Datapost group marketing manager, concedes that there are some difficulties in reconciling Datapost's attempts to present a dynamic image with the Post Office's more staid tradition of 150 years of public service.

He insists, however, that the Post Office umbrella also offers important strengths, such as the network of counters at offices around the country, a built-in nationwide delivery system, and the Royal Mail's reputation for security.

"I think that Datapost is recognised in a sense as the Rolls-Royce of Post Office service, and that has to be a good thing, a good selling point," he says.

Datapost has gone to some lengths to capitalise on its position as an established operator, notably with an aggressive television advertising campaign intended to build on an existing high level of awareness of the service.

The key to success in the courier business, however, is reliability, and Datapost has made significant strides in establishing a reputation for getting deliveries to destinations on time.

Management confidence in the organisation's ability to meet its deadlines is reflected in the guarantees of delivery on time offered to every customer of both domestic and international services.

This includes both a moneyback guarantee and provision for payments of up to £10,000 for consequential loss to any customer who can prove that late delivery has caused financial hardship. "I think it is quite clear that payments of this sort would very quickly put us out of business if we had to pay out very often," Mr Payne says.

Datapost operates two parallel services within the UK, offering same-day deliveries to most areas, and overnight deliveries by either 10 am or noon to all but a few remote areas.

The core of the network is the 3,000 Post Office Datapost acceptance points backed up by 14 regional service centres, with a central hub at Luton. Much of the domestic traffic is carried by British Rail, either accompanied by couriers on passenger services or, in greater bulk, on the travelling post offices used for mail and newspapers.

Datapost also makes extensive use of radio-controlled vans and motorcycles, and a fleet of small aircraft for deliveries from Luton to Aberdeen, Edinburgh, Glasgow, Manchester, Liverpool, Belfast and Bristol. A second domestic hub at Manchester is expected to open later this year to ease the pressure on deliveries to the north of England and Scotland.

On the international front, Datapost claims to serve more addresses than any other courier service—almost 400 major cities in nearly 90 countries—and recently announced improvements to its services to Denmark, Finland and Japan.

International traffic is routed through the Luton hub to Brussels (or direct to Dublin for the Republic of Ireland) from where it feeds into the express mail services operated by Continental post offices.

Overnight delivery is guaranteed to major European cities. Services to the US usually take two days, and Australia and the Far East three days. Datapost claims to have doubled its international traffic in the 18 months to the end of 1986, and forecasts continued high growth.

"We reckon we are growing considerably ahead of the market, which we believe is growing at the rate of 20 to 50 per cent a year," Mr Payne says.

Datapost has also attempted to expand its base by moving into the market for express delivery of heavier packages, for which it offers a flat rate within the UK of £10.70 for the first 5kg, plus 20p for each additional kg. The intention is to take advantage of the increasing demand for "just-in-time" deliveries by manufacturers and retailers attempting to cut inventory costs.

Despatch of a Datapost parcel at a Post Office

This service has attracted a number of corporate account customers, including Bass (Ireland) which uses Datapost for deliveries of computer data, and J. I. Case (Europe), an agricultural machinery manufacturer based in Doncaster.

Mr Payne says: "Our strategy in marketing terms has been to build on the very high traffic base we have always had for documents, and to push very hard to establish ourselves as couriers of goods."

Red Star has a potentially more serious image problem than Datapost because of the public perception of British Rail as unreliable. This has largely been overcome, however, by an increasingly sophisticated marketing campaign which has succeeded in establishing the express parcels service as a separate entity.

Mr Mike Bonser, marketing manager, says: "While Red Star is a relatively young, dynamic organisation, we also regard the fact that we are an established part of British Rail as a great strength.

"The railway network gives us access to passenger trains and a service which operates around the clock throughout the UK. This is especially useful in the same-day service which many businessmen consider vital."

Red Star claims to have increased turnover by 50 per cent over the last two years, in a market which it estimates is worth a total of about £350m a year. Mr Bonser refuses to say what Red Star's turnover is, however.

Red Star operates three domestic services: same-day delivery, and overnight by either 9 am or noon — though deliveries to some isolated areas are not guaranteed before 5.30 pm.

Air services have recently been launched to improve deliveries to Ireland, the Channel Islands, the Isle of Man, and the Scottish islands. Internationally, Red Star is part of the Eurail Express consortium with the national railways of France, Belgium, Luxembourg, The Netherlands, West Germany, Switzerland, Austria and the Scandinavian countries.

Deliveries are flown by chartered aircraft from Southend to Brussels, where they are fed into national rail networks in the participating countries.

An agency service is to be started in Italy later this year to fill the biggest gap in the network, and negotiations are under way for the start of a full Italian service, possibly in 1988. Eurail is experiencing problems in extending the network to Spain and Portugal, however.

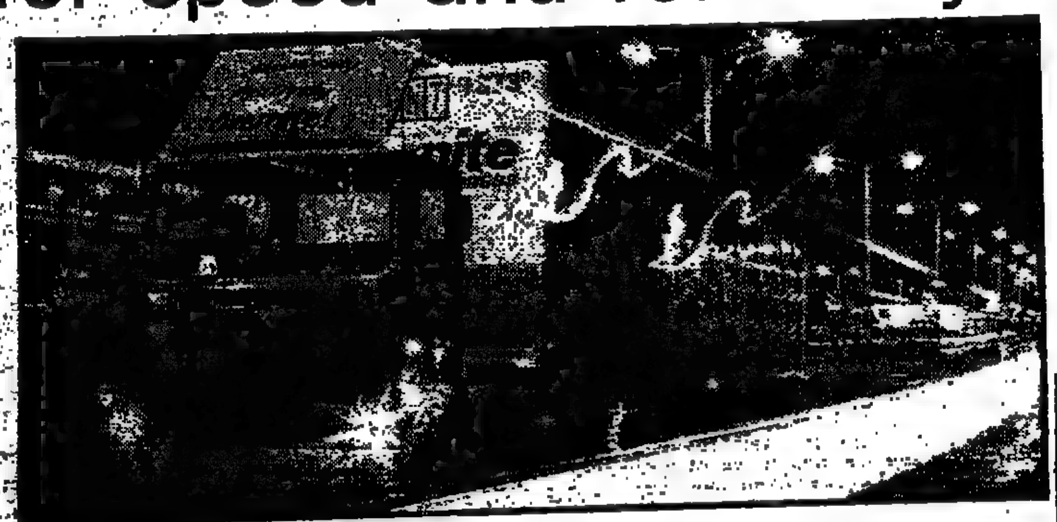
Like many others in the express parcels industry, Mr Bonner will not reveal throughput figures, but Red Star is believed to be carrying more than 4m parcels a year, of which about half are in the weight range up to 5kg. The major growth area is the Thames Valley, particularly in the burgeoning high technology and printing and communications sectors.

Red Star is in the process of introducing a £4.5m parcels tracking system to improve reliability, and is planning an international service to the US, where deliveries will be made by agents because of the huge gaps in the rail network.

Kevin Brown

Heavy freight

Need for speed and reliability



Overnight services are a key for manufacturers too

INITIALLY introduced primarily for the movement of documents and packages of up to about 30 kilos, the concept of door-to-door express delivery services is now being applied increasingly to larger freight consignments.

Encouraged by the development of faster and more reliable door-to-door delivery services around the world, at least between Europe, North America and the Far East, more manufacturers and traders are adopting so-called "just-in-time" distribution policies which allow them to keep stockholding and inventory costs to a minimum.

Associated with that is a growing interest in freight services which can offer the same delivery speed and reliability for items up to several hundred kilos as are now becoming established for smaller parcels.

Looking to meet that demand are airfreight forwarding companies who, along with international airlines, have had to bear the brunt of the new competition for smaller consignments from courier/express parcels delivery specialists offering fully integrated door-to-door services.

Privately, and in some cases publicly, conceding that much of the battle with express operators for small parcels business is already as good as lost, forwarders believe they have a much better chance of competing successfully for larger parcels and general airfreight traffic requiring express door-to-door services.

According to Burlington Air Express (BAX), the US-based forwarding organisation: "Courier companies have been successful in building up the express movement of smaller consignments around the world. Shippers now want the same level of service for larger consignments but at more competitive rates than those available from established courier services."

Translating words into action, BAX has developed its own door-to-door freight service catering for any weight of consignment called Priority Express. Launched two years ago on the North Atlantic and subsequently expanded to take in most of the US, Europe and the Far East/Australasia, the service is now said to account for about 20 per cent of Burlington's overall international traffic—other areas of activity include courier and standard airfreight services—and the share is continuing to grow rapidly.

That trend was reflected in the company's decision towards the end of last year to change its name from Burlington Northern Air Freight and adopt the present identity.

Well placed to assess current developments on the express freight scene is UK-based forwarder Atlasair which is involved with all three principal sectors of the market—courier activities in the form of AAS Courier Service, parcels traffic through a service partnership with US organisation United Parcel Service (UPS) and heavier weight consignments through Waco Express, a full door-to-door service for the movement of shipments of any size to and from most Continental countries.

Mr Tony Keating, Atlasair's managing director, believes the industry will continue to be split into those three sectors, although he concedes there inevitably will be some overlap between the different areas. The traditional airfreight industry in the form of forwarders and airlines will, he claims, find it difficult to establish the extensive systems and ground facilities required to reduce costs and retain the parcels sector involving items up to 25 kilos.

"For slightly larger shipments, however, the situation is very different because these larger shipments ideally do not suit the very specialised and automated handling systems used by parcel operators. Forwarders should, therefore, be in a much stronger position to equate the costs by utilising their existing premises.

"To successfully retain these larger door-to-door shipments, forwarders and airlines must, however, be able to provide the same level of service as the integrated operators."

To achieve that aim, he says changes are needed in the existing freight handling and Customs clearance procedures at major airports such as London Heathrow. The current standard of 85-90 per cent of freight flown as booked is simply not good enough — it would have to be 98-99 per cent every time.

The whole operation will have to be faster, simpler and at greatly reduced cost. And it will also be essential for all freight to be cleared and available for removal within at most three to four hours of aircraft arrival.

"If this can be achieved then a good proportion of the door-to-door traffic over 25 kilos will stay with forwarders and scheduled airlines. If not, the door-to-door freight will simply follow the door-to-door parcels into the closed systems of integrated operators flying into smaller airports," he says.

Some forwarding organisations have in fact decided to take on the express operators at their own game and set up their own integrated door-to-door delivery services. For example, Netherlands-based forwarding organisation Pandair International, has established an intra-Europe door-to-door express freight operation called Pandalink with its own separate management structure.

The system uses both Pandalink-dedicated overnight air operations — including one between the UK and the Continent — and trucking links to maintain 24/48-hour delivery services throughout Europe for consignments of several hundred kilos as well as smaller parcels.

"Because we have forwarder origins we are concerned not just with small parcels but with the whole weight range — 250 kilos per item is not unusual," says Mr Richard Johnston, Pandalink's general manager.

Pandair has also developed an express service, Pandapak, for long-haul markets. This has been substantially expanded over the last year to handle larger weight consignments moving between Europe, North America and the Far East. However, unlike the Pandalink operation, Pandair uses only scheduled airline services for the Pandapak traffic.

Another leading European forwarder to develop its own door-to-door express freight system is the Swiss-based organisation Danzas. The Eurapid system, as it is known, is basically a franchise operation covering some 15 countries in Europe and Scandinavia through a network of depots or "platforms" as Danzas calls them. Although the Eurapid tariff starts with shipments as small as five kilos, the majority of customers use the system for heavier weights.

For that reason, the Eurapid system currently relies almost exclusively on road transport, with some 98 per cent of traffic moving that way. Other transport modes such as air and rail have been tried but, according to Danzas executives, trucking operations have to date proved the most suitable to its service needs.

However, with Finland and Spain due to be added to the Eurapid network shortly, Danzas has recently started looking more closely at the possibility of using aircraft to link the outer areas of its market coverage.

Phillip Hastings

International operations

US expansion brings shake-up

Helicopter speeds transfers of packages to the airport

A FUNDAMENTAL shake-up is taking place in the European express parcels sector as North American companies make a determined attempt to dominate the market.

The invaders, led by Federal Express, United Parcel Services and DHL, are keen to expand their business base away from the US, where rapid growth in the market is beginning to slow down.

There can be little doubt that companies of this stature have the financial muscle to build a significant market share in Europe, where the express business is still at a relatively early stage of development.

But it is equally clear that the price of long-term success could be heavy losses in the short term as rates are slashed in an attempt to win business.

Fears are growing that a rates war on European routes could lead to the disappearance of some of the competitors, though the potential for expansion ought to mean plenty of room for everyone in the long term.

Mr Mike Bonser, marketing manager of British Rail's Red Star express parcels service, warns: "The market is expanding and everyone is getting a slice of the cake, but prices may become so low that no one makes a profit."

Ironically, some of the loudest complaints are coming from the Australian companies which beat the Americans to the draw in Europe and have subsequently built up a substantial share of the market.

Mr Jerry Fitchett, director of corporate development for the European operations of TNT, part of the Australian Thomas Nationwide Transport group, says the US invasion is an inevitable result of increasing competition in North America.

"For many years, the American market was very profitable, enabling these cash-rich giants to come to Europe and literally slash existing rates by subsidising their services.

"Their logic is that once reputations have been made and contracts secured, pricing systems can revert to a higher, more realistic level.

"However, a greater likelihood is that these new players in the European market will not win the critical threshold of custom they need to put their rates up and make more money."

Mr Fitchett accuses the Americans of trying to buy custom with low rates without investing in the infrastructure necessary to provide a comprehensive service.

"Customers will not keep coming back to companies which offer low prices and spend millions on advertising unless they also invest heavily in documentation systems, the extension of depot networks, and the development of new aircraft and wheeled transport," he says.

Mr Fitchett claims TNT Ipec has in some cases found itself undercut by 60 per cent by US competition, though he maintains that many customers have returned to the company after being let down by the newcomers.

"If the Americans had really grasped the key to a successful entrance into the European market, they would have invested their millions not in subsidising unreal rates, but in laying the groundwork for a reliable and extensive delivery network.

"That has certainly not been done. The US giants have been here for several years and are only now considering a consolidation of their operations.

"If they procrastinate for much longer, there is a very real danger that the European end of their businesses will prove to be such a lossmaker that HQ across the water will want to call it a day."

Mr Fitchett accused the Americans of offering "really silly rates." They were offering "a sort of service" internationally "at rates which are equivalent to moving traffic domestically, and you cannot make any money doing that."

TNT makes no secret of its own ambition to be the dominant express company in Europe, and claims to be planning a guaranteed next-day delivery service throughout the European Community, with the exception of Greece but with the addition of Switzerland, Austria and Scandinavia.

The Australian parent company has outgrown its Antipodean base, and will spend "whatever is necessary" to achieve its European goals, Mr Fitchett says.

Needless to say, his views on the American invasion are not shared by the US companies themselves.

The market leader in Europe is almost certainly DHL, the Californian-based group which began operations in Europe as long as 12 years ago, and now claims to handle about £150m a year, in a market estimated at about £350m.

Mr Alun Jones, the group's regional manager for Europe, claims that much of the credit for expansion of the European market over the last decade should go to DHL, which has raised the level of public awareness of express services.

"The market is expanding at a very high rate. There is a much larger potential market, both for parcels and documents, which we firmly believe has still to be exploited.

"As far as we are concerned, the advertising campaigns being mounted by the newer entrants from the US can only benefit us by helping to increase the total size of a market in which we have already built up a dominant share," Mr Jones says.

He confirms that DHL cut its rates recently, particularly in the heavier end of the market, where the company wants to expand its market share.

But, he insists: "Offering very low rates in itself does not bring success in this market. First you have to offer the best possible service.

"People are much more concerned about the urgency and the value to them of getting a package to its destination fast and with certainty than about whether it costs 10 or 20 per cent less," he says.

"Anyone who came along and sold at low prices without having first established a full European network would in my view lose a lot of money without gaining a lot of business."

"This business requires single-company control to provide the speed and reliability that people are looking for, and the new companies have not yet matched that," he says.

Federal Express, largest express carrier in the US market, says it recognises that company control is essential wherever possible, and that is its aim in most of Europe.

Mr Frederick Smith, the company's chairman and founder, says it is quite clear that Europe has to be approached in a different way to the US, not least because of the problems caused by customs barriers and bilateral air treaties.

FedEx has taken steps to acquire an infrastructure base with the purchase of Lex Wilkinson, the established UK express carrier, and it is clear that further acquisitions in Europe are likely to follow.

In addition, FedEx is planning to seek a listing on the London Stock Exchange some time in the financial year 1987-88, to raise its corporate profile in Europe—and perhaps to emphasise that it is not going to go away.

In the meantime, FedEx plans to spend about $10m this year on expanding its European operations, and seems prepared to absorb initial losses in pursuit of the long-term goal of a fully global operation.

Kevin Brown

Airlines cash in at last on their hold space

Couriers check in for a flight from Heathrow

Chasing the courier companies

AIRLINES have started to take the initiative in a belated attempt to capitalise on the rapid expansion of the airborne courier, express parcel and premium freight business.

The likely scale of this expansion in the future is illustrated by forecasts from Emery Air Freight, which suggest that by 1995, the world market for premium freight and parcels traffic delivered door-to-door, at standards of service and at charges over the standard freight rates, will overtake the traditional cargo market and generate some $40bn a year.

This rising sector, with an annual growth of about 20 per cent, could then rival the business travel market, one of the airline industry's principal profit areas.

The world air cargo market, in total, is estimated to be worth about $18bn a year and likely to grow to $29bn a year by 1989 and $56bn a year by 1995, according to Emery.

The financial prizes available in the air cargo market are shared currently by the airlines, the freight forwarding agencies and by the growing number of specialist air courier operators and express parcel companies.

The airlines traditionally have had a dual role, primarily that of providing air transport capacity for customers. But the airlines have also started to act more on their own behalf and this is where the changes are starting to take place as they seek to share in the rapid growth in the premium freight and courier business.

British Airways, with one of the busiest freight and passenger networks in the world, acknowledges that "over the years, cargo became a commodity sold off in bulk to intermediaries who were the only people to focus on customers' needs."

The airlines had potentially valuable space in the holds beneath the passenger cabins, but largely left it to others, such as freight forwarders and consolidators, to drum up the business to fill these spaces.

These companies did produce vast amounts of ordinary freight business, much to the satisfaction of the airlines, but in the early days of air freight, airlines, including British Airways, hardly brimmed over with initiatives to win freight business on their own account, concentrating their efforts instead on revenue from passengers.

Pressure on airline profits, from oil price rises, from increased competition and from the huge costs of re-equipping airline fleets with up to date aircraft, changed the picture and helped sharpen the focus of airline management on to the potential of their cargo holds. The holds began to be seen by management as potential profit makers.

This was not before the specialised forwarders had spotted the "window of opportunity" left open by the airline's neglect of their own prospects in marketing their cargo capacity with vigour.

The specialised forwarders enhanced the standard airport-to-airport service for freight cargoes by offering comprehensive door-to-door services. Other changes came when the first courier companies bypassed freight forwarding agents and went direct to customers with the offer of courier door-to-door deliveries for time-sensitive documents and small packages.

This has proved to be a huge and still growing market as industry and commerce adapt to the availability of an almost instant delivery service—to such an extent that production arrangements on some shop floors in Europe now depend on the speed and reliability of these door-to-door services.

Mr Geoff Bridges, managing director of BA Cargo, says some airlines, including BA, are "value adders," which recognise that with careful attention to the cargo service and a degree of investment, a commercial return can be made that is "increasingly the difference between profit and loss."

He says that the scheduled airlines will capitalise on their inherent major strengths, such as a world-wide system and hub networks. "Express (parcel) operators will find it very expensive to serve with discrete aircraft all but the major (airport) hubs," he says.

BA has developed what is seen as its own range of value added services, but is cautious in its approach to the fast-changing premium freight market, which it is tackling "step-by-step."

The airline points to some of its strengths in the competitive market that is developing for these premium services, such as its base in London—"the supreme air hub"—and its Concorde fleet, "the foremost express service vehicle on the major route (London to New York)."

In September, BA seconded a senior manager to set up a separate organisation in the airline concentrating on premium freight business. The Express Services operation takes in couriers, express freight marketing and the Speedbird Express door-to-door service.

The airline has provided a specialist courier handling facility beside the new Terminal 4 at Heathrow Airport at the BA Cargocentre.

This is to form a part of the new, custom-built £500,000 Express Handling Unit/Express Services building and will house all BA's express parcel business, including accompanied courier traffic and unaccompanied express freight, as well as Speedbird Express. The building will open in mid-summer.

In a typical week this February, more than 150 couriers flew from Heathrow on BA services, with baggage weighing between 50 and 850 kilos.

The airline also has its own in-flight courier service, available only on Concorde so far. This is a "wholesale" courier service available since November on the evening Concorde flight to and from New York.

A BA staff member travels on board as the courier and carries a wide variety of consignments on behalf of established courier companies whose amount of urgent freight would normally be too small to justify the cost of a Concorde ticket. The service can be used by companies with as little as only one 30 kilo bag.

British Caledonian Airways has started a service for the air delivery of small packages, on an airport-to-airport basis at the moment. This is labelled by BCal its "Priority Plus" service and was launched in January. Shipments of up to 100 kilogrammes can be carried, with the maximum weight of each package set at 30 kilos.

The packages are handled separately by BCal, but no premium over standard general cargo rates is charged. The airline offers automatic booking of the packages on the next available flight.

It also offers reduced times for booking the cargo in, down from five hours to three hours at Heathrow and from three hours to one hour at Gatwick, according to Mr David Brooksbank, BCal's general manager for cargo.

The airline tells its customer once a package has been booked in for a flight and proof of delivery is provided if this is needed.

The bulk of the business still comes from the freight forwarder, but the initiative for the change came from BCal, reflecting the fundamental change in airline thinking.

Lynton McLain

Profile: Federal Express

Strong presence from hard work

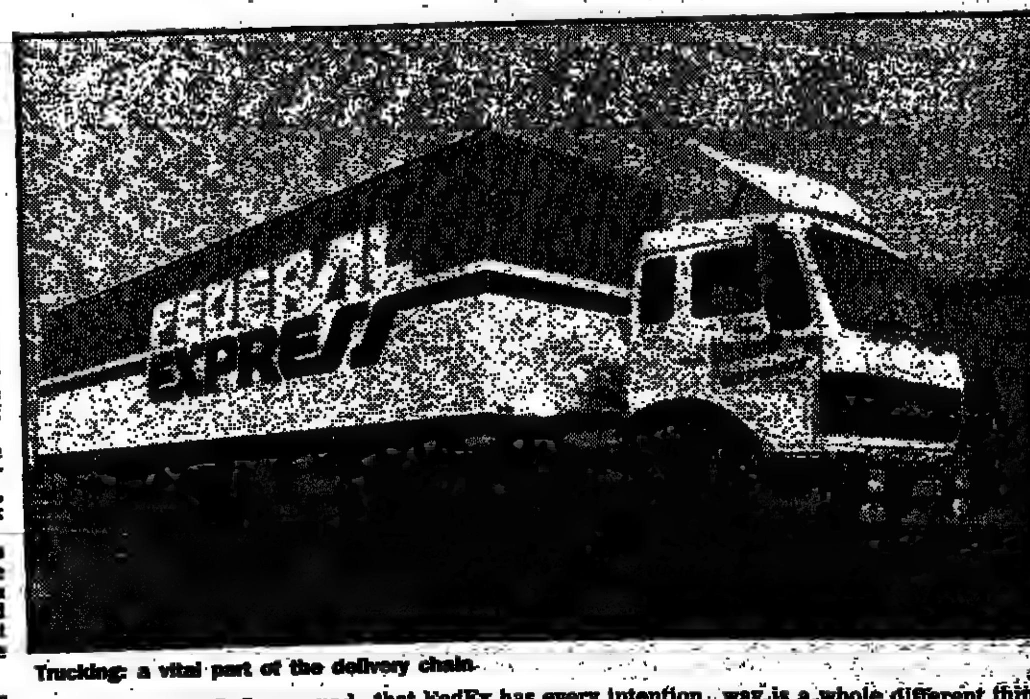
OF ALL THE major US companies entering the expanding European market, the one that strikes most fear into the hearts of European managers is Federal Express.

Mr Frederick Smith, chairman and founder of FedEx, claims, with some justice, to have invented the concept of express delivery by air when he launched the company on $75m of borrowed money in 1973.

The corporation's growth since then has been phenomenal—to the point where it now has more than 53 per cent of the US market—the biggest single operator—and a turnover of more than $3bn a year.

How was it done? Carole Presley, the British-born senior vice-president for marketing, says it took "a lot of hard work and fast talking."

The first night of operations was very discouraging. "We only had eight packages, and on further investigation it turned out that seven of those were sent by our salesmen to one another," Ms Presley says.



Trucking: a vital part of the delivery chain

In the first year of operations FedEx lost more than $1m a month—on an average package count of only 4,000 per day.

It was 1976 before the corporation saw its first profits—on the strength of an aggressive, and funny, advertising campaign aimed primarily at Emery Air Freight, then the biggest of the US air freight forwarders.

Later, the company's television advertising became a hallmark of its operations—and undoubtedly helped to make it the best known of the express carriers.

There have also been a large number of marketing gimmicks, all aimed at the same goal—increasing public awareness of the company and its services.

These have included distributing 86,215 five pound dumbbells to customers to demonstrate that FedEx could carry heavy items as well as urgent letters, and sending 42,500 three pound boxes of jelly beans to publicise a tariff revision described "a sweet pricing programme."

Gimmicky these stunts may have been, but the dumbbells brought in 22,000 sales leads, and the sweets led to £20m worth of extra business in the following five months.

And in addition to its dominant share of the existing market, FedEx is able to claim that it gained 189,000 of the 270,000 new packages which were added to the market in new business in 1986.

Carole Presley makes clear that FedEx has every intention of repeating its aggressive marketing campaign in the European market.

"We believe we have some very real opportunities on the international front, especially when you consider that Federal Express, our name and what we do, is still largely unknown to shippers in Europe and that customer education is still required," she says.

Carole Presley says one of the keys to success in the European market will be the ability to provide a service to and from the whole of the Continental US.

"Our competition is aware that getting a package delivered to a gateway entry in the US is relatively simple. Getting it delivered in Billings, Montana, almost 3,000 miles from the gateway is a whole different thing.

"Those companies with a limited US network are at a disadvantage when dealing with Federal Express."

Mr Tom Oliver, Federal's senior vice-president in charge of sales, says the company's television advertising in the US "caused an explosion of awareness in the US market about what could be done."

Mr Oliver says FedEx can maintain its rapid sales growth only by expanding outside the US, where growth in the market has now begun to slow.

"It is very important for us to establish the same high quality network and dominant market position in the UK and Europe as we have in the US," he says.

Kevin Brown

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WORLD STOCK MARKETS

AUSTRIA

1986/87 High	Low	March 13	Price Sch
2,650	1,990	Credit'anst'lt pp	2,050
3,800	2,950	Goesser	3,000
16,000	12,700	Interunfall	13,000
21,750	8,880	Jungbunzlauer	8,825
2,475	1,935	Laenderbank	1,935
795	550	Perlmooser	700
211	140	Steyr Daimler	143
12,50	850	Veitscher Mag	920

BELGIUM/LUXEMBOURG

1986/87 High	Low	March 13	Price Frs.
3,500	2,290	B.B.L.	3,095
16,950	9,690	Banq. Gen. Lux	15,625
17,000	9,406	Banq. Int.A.Lux	15,200
14,500	8,250	Bekaert	11,800
8,450	2,648	Ciment CBR	6,900
195	120	Cockerill	139
3,465	1,862	Delhaize	3,300
6,410	3,680	EBES	6,350
2,700	1,680	Fabrique Nat	1,845
1,250	588	GB Inno BM	1,158
4,525	2,895	GBL (Brux)	3,790
6,600	4,310	Generale Bank	5,550
6,850	4,750	Gevaert	6,340
8,150	5,700	Hoboken	6,690
4,525	2,880	Intercom	4,365
4,495	2,430	Kredietbank	4,495
11,850	9,900	Pan Holding	11,150
10,525	6,080	Petrofina	10,350
29,465	17,200	Royale Belge	24,665
3,575	2,120	Soc. Gen. Belge	3,500
14,225	7,710	Sofina	14,225
10,475	6,050	Solvay	10,350
885	185	Stanwick Intl	370
6,950	4,675	Tractebel	6,800
10,300	5,500	UCB	10,000
6,200	3,705	Wagons Lits	5,900

DENMARK

1986/87 High	Low	March 13	Price Knr. %
970	510	Baltica Skand	876
348	235	Cop Handelsb'nk	277
470	318	D. Sukkerfab	345
381	259	Danske Bank	345
288	160	East Asiatic	190
1,240	870	Forenede Brygg.	870
665	299	GNT Hld	300
840	505	I.S.S.B.	835
640	450	Jyske Bank	480
281	218	Novo Inds*	270
339	229	Privatbanken	277
1,060	585	Sophus Berend	800
331	119	Superfos	173

FINLAND

1986/7 High	Low	March 13	Price Mks
229	100	Amer	222.5
55	43.75	KOP	49.2
275	175	Kone	207.5
171	87.2	Finnish Sugar	98.5
169	63.6	Nokia	162.5
233	57.5	Pohjola "B"	81.7
25.5	14	Rauma-Repola	22.15
265	94	Stockmann "B"	201
39	25.4	UBF "C"	33.85
240	120	Wartsila (S11)	206.5

FRANCE

[illegible]

SOUTH AFRICA

[illegible]

AUSTRALIA

[illegible]

GERMANY

[illegible]

NORWAY

[illegible]

SPAIN

[illegible]

NETHERLANDS

[illegible]

SWITZERLAND

[illegible]

SWEDEN

[illegible]

HONG KONG

[illegible]

SINGAPORE

[illegible]

JAPAN

[illegible]

ITALY

[illegible]

NOTES—Prices on this page are as quoted on the individual exchanges and are last traded prices. [illegible]

CANADA

TORONTO

Closing prices March 13

[illegible]

F—No voting rights or restricted voting rights.

MONTREAL

Closing prices March 13

[illegible]

OVER-THE-COUNTER

Nasdaq national market, closing prices, March 13

Continued from Page 37

[illegible]

Indices

NEW YORK

[illegible]

CANADA

[illegible]

NEW YORK ACTIVE STOCKS

[illegible]

[illegible] Saturday March 7: Japan Nikkei 21,123.1. TSE 1,817.26. [illegible]

Closing prices, March 13

NEW YORK STOCK EXCHANGE COMPOSITE CLOSING PRICES

12 Month High	12 Month Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
33	20	AAR s	.50	1.6	23	404	32	31½	32	+⅛
35⅛	21⅞	ADT	.92	2.5	21	839	u37	35⅛	36⅝	+1⅝
39¾	21	AFG s	.12e	.3	12	913	u41	39¾	41	+1¼
40¼	18¾	AGS			22	109	38	37¼	37½	−¼
15	6¾	AMCA				11	8¼	8⅛	8⅛	−¼
9⅜	4⅞	AM Intl				602	8⅞	8⅝	8¾	−⅛
62⅛	47¼	AMR			12	4689	57⅞	56	56¼	−⅞
27½	24½	ANR pf	2.67	10.		14	26⅝	26⅜	26⅝	+½
24¾	20½	ANR pf	2.12	8.9		6	23⅞	23⅞	23⅞	−⅛
13⅛	8	ARX s			13	621	11¼	10⅞	10⅞	−⅛
49⅛	28¾	ASA	2a	4.2		1643	u49½	47	47⅜	−1⅛
17⅜	9¾	AVX		2.0		636	15¾	15⅜	15⅝	−⅛
32¾	26½	AZP	2.72	8.5	11	1269	32¼	31⅞	32	+⅛
63⅝	36¾	AbtLb s	.84	1.4	27	2252	62⅜	61⅜	61⅝	−¾
34	25	AccoWd	.62	2.0	20	644	32	31½	31½	−⅜
14⅛	9	AcmeC	.40	3.1	24	153	13⅛	12¾	13	
9	6⅛	AcmeE	.32b	4.0	28	10	8⅛	8	8	
23⅞	18½	AdaEx	3.42e	15.		104	22⅝	22	22⅛	−¼
19½	11⅝	AdmM s	.24	1.3	14	15	19	18½	18½	−½
21½	12⅛	AdvSys	.62i	2.9	16	221	21½	21	21⅛	−⅛
32¾	12⅞	AMD				3059	20⅞	20½	20½	
10⅝	5¼	Adobe				964	9⅛	8¾	9⅛	+⅜
20	13¾	Adob pf	1.84	9.6		4	19⅝	19¼	19¼	−¼
21⅞	16⅝	Adob pf	2.40	11.		54	21¼	20⅞	20⅞	−¼
16⅝	11½	Advest	.12a	.9	11	313	13⅝	13	13⅝	
68¼	58	AetnLf	2.76	4.1	11	2471	67⅞	67¼	67½	+⅛
54	51⅛	AetL pf	2.81e	5.4		7	51¾	51¾	51¾	−⅛
50¾	21⅞	AflPb s	.32	.7	26	361	49½	48¾	49	−¾
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Continued on Page 37

هكذا من الأصل

NYSE COMPOSITE CLOSING PRICES

Continued from Page 36

[illegible]

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
64½	45⅝	WiscEn2.68		5.2	11	731	51½	50⅞	51⅛	−⅛
80¼	44⅞	WiscPL3.04		5.9	12	54	51⅝	51⅝	51⅝	−⅛
60	40¼	WiscPS	3	6.0	12	70	50	49⅞	49⅞	−⅛
48⅞	31½	Witco s	1.12	2.5	15	267	45½	45	45⅛	−⅜
12⅞	5⅞	WolvrW				216	11	10¼	10¼	−⅛
48¼	34½	Wlwth s1.12		2.4	16	1381	47⅞	46⅞	47⅞	+1
140½	98	Wolw pf2.20		1.6		3	134⅞	134⅞	134⅞	+1⅞
7⅛	2	WrldAr				59	7⅛	7	7	−⅛
19⅝	14⅞	WrldVl n				30	18¼	17⅞	18¼	+¼
54	32⅜	Wrigly s1.04		2.1	20	65	51⅜	50½	50½	−⅞
4⅛	1⅝	Wurltzr				2	2⅞	2⅞	2⅞	
17¾	11	WyleLb	.32	1.9	31	62	17⅛	16⅞	17⅛	+⅛
25⅜	17⅞	Wynns	.60	2.8	15	22	21⅝	21¼	21¼	−⅛
		X Y Z								
74½	45⅝	Xerox	3	4.1	19	2049	73¾	72⅞	72¾	−1⅛
58¼	55	Xerox pf5.45		9.8		29	55⅞	55¼	55⅞	
28¾	21½	XTRA	.64	2.4		289	26⅞	25⅝	26¾	+1⅛
20⅝	19⅝	Yorkin n			29	46	20⅝	20	20	
8	2⅞	Zapata				769	3⅝	3¼	3⅜	+⅛
45⅞	20¾	Zayre s	.32	1.1	18	2289	30⅞	30⅜	30⅜	−⅜
15¼	9⅛	Zemex	.40	3.0	8	60	13¼	13	13⅜	+⅜
27⅞	16⅞	ZenithE				584	25¼	24⅞	24⅞	−⅜
16¾	8	ZenLb s			73	2456	12¼	11½	11⅝	−½
22⅝	12⅝	Zero	.36	1.9	20	56	18⅝	18⅝	18⅝	−¼
51	32⅝	Zurnln	1.32	2.6	20	49	50½	50	50	−½
10⅝	8⅞	Zweig n.10e		1.0		705	9⅞	9⅝	9⅝	−⅛

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 per cent or more has been paid, the year's high-low range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividends are annual disbursements based on the latest declaration.

a-dividend also extra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E-price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls – sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-divident or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

AMEX COMPOSITE CLOSING PRICES

Closing prices March 13

[illegible]

OVER-THE-COUNTER

Nasdaq national market, closing prices March 13

[illegible]

Continued on Page 35

CURRENCIES, MONEY & CAPITAL MARKETS

FOREIGN EXCHANGES

Sterling attracts demand ahead of the Budget

STERLING TOUCHED its highest level since last July on its exchange rate index last week, and briefly rose to $1.60, the strongest against the dollar since May 1983.

This was a reaction to optimism about the UK economy, and doubts about the direction of major currencies, apart from the pound.

The Paris agreement, by the leading industrial nations, to stabilize the currency market, has produced a marked reluctance to attack the recent lows touched by the dollar, for fear of central bank intervention. But the market is equally unhappy to buy the US currency, because of the US trade deficit.

The main central banks expected to intevene if the dollar falls are the Bank of Japan and the West German Bundesbank, because the yen and D-Mark have been the obvious candidates to buy at times of dollar weakness.

But recent statistics have been less than favourable about the Japanese economy and even more worrying about the West German peformance.

This has left the market fearful of selling the dollar, but reluctant to buy it, and equally uncertain about buyig the yen and D-Mark.

Among the Group of Six signatories to the Paris accord, this leaves the French franc, Canadian dollar and sterling. The French franc is tied to the D-Mark through the European Monetary System, and French economic news has been less than encouraging lately.

The Canadian dollar has been the subject of speculative appreciation since the Group of Six meeting, but he obvious beneficiary from the market's nervousness about holding dollars, yen and D-Marks is the pound.

Political news in the UK has centred on the recent success of the Alliance, but from the market's view this enhanced hopes of further period of Conservative government, because the popularity of the Labour Party appeared to be on the wane.

At the same time the economic situation in Britain seems to be improving and it is expected that tomorrow's Budget will underline this trend.

The Budget will decide whether bank rates fall by ½ per cent; 1 per cent; or possibly not at all, and whether sterling holds on to its recent gains. The Bank of England has been reluctant to hint at any cut in base rates to the money market or to allow the pound to rise above $1.60.

Apart from the Budget, there are several other economic events this week.

Today's February UK retail sales will rise by 2 per cent, according to County NatWest, and stockbroker James Capel. A survey by Money Market Services suggests a rise of 1.8 per cent.

There is some disagreement about tomorrow's February Public Sector Borrowing Requirement for last month. County NatWest has forecast a net repayment of £200m, but James Capel expects a borrowing requirement of £1bn. Capel also suggests March's PSBR will substantially exceed last year, and that the final figure for 1986-87 could be £5.75bn.

February industrial production for the UK is expected to rise 1.1 to 1.5 per cent.

On Thursday February's bank lending is forecast at £2bn to £2.3bn, and sterling M3 is expected to rise 1.3 to 1.5 per cent. Sterling M0 is forecast to fall 0.5 to 0.9 per cent. Unemployment may fall by about 15,000 according to the forecasters.

The retail prices index on Friday is forecast to climb 0.4 to 0.5 per cent, and the annual rate of UK inflation is expected to be 3.9 or 4.0 per cent.

£ IN NEW YORK

Mar 13	Close	Previous Close
£ Spot	1.5755-1.5765	1.5865-1.5875
1 month	0.57-0.56 pm	0.51-0.50 pm
3 months	1.35-1.32 pm	1.37-1.34 pm
12 months	4.43-4.35 pm	4.47-4.37 pm

Forward premiums and discounts apply to the U.S. dollar.

STERLING INDEX

		Mar. 13	Previous
8.30	am	71.6	72.7
9.00	am	71.6	72.7
10.00	am	71.9	72.6
11.00	am	71.7	72.5
Noon		71.8	72.2
1.00	pm	71.7	72.3
2.00	pm	71.6	72.4
3.00	pm	71.7	72.1
4.00	pm	71.6	72.3

CURRENCY MOVEMENTS

March 13	Bank of England Index	Morgan Guaranty Changes %
Sterling	71.6	-22.2
U.S. Dollar	108.1	-3.4
Canadian Dollar	79.2	-9.5
Austrian Schilling	137.8	+30.3
Belgian Franc	100.0	-4.3
Danish Kroner	92.9	+3.7
Deutsche Mark	146.7	+21.5
Swiss Franc	170.7	+21.2
Guilder	134.2	+14.2
French Franc	71.6	-12.8
Lira	48.1	-16.7
Yen	211.0	+57.3

Morgan Guaranty changes: average 1980-1982=100. [illegible]

CURRENCY RATES

[illegible]

OTHER CURRENCIES

[illegible]

FORWARD RATES AGAINST STERLING

	Spot	1 mth	3 mths	6 mths	12 mths
US Dollar	1.5750	1.5694	1.5617	1.5499	1.5300
D-mark	2.9175	2.8999	2.8740	2.8368	2.7691
French Fr	9.7150	9.6923	9.6695	9.6352	9.5907
Swiss Fr	2.4475	2.4334	2.4130	2.3798	2.3195
Yen	240.25	238.98	236.89	233.79	228.11

EMS EUROPEAN CURRENCY UNIT RATES

	Ecu central rates	Currency amounts against Ecu March 13	% change from central rate	% change adjusted for divergence	Divergence limit %
Belgian Franc	42.4582	42.9792	+1.23	+0.87	±1.5344
Danish Krone	7.85212	7.80941	-0.54	-0.90	±1.6404
German D-Mark	2.05853	2.07572	+0.84	+0.48	±1.0981
French Franc	6.90403	6.90711	+0.04	-0.32	±1.3674
Dutch Guilder	2.31943	2.34450	+1.08	+0.72	±1.5012
Irish Punt	0.768411	0.777138	+1.14	+0.78	±1.6684
Italian Lira	1483.58	1475.01	-0.58	-0.58	±4.0752

Changes are for Ecu, therefore positive change denotes a weak currency. Adjustment calculated by Financial Times.

EXCHANGE CROSS RATES

Mar. 13	£	$	DM	YEN	F Fr.	S Fr.	H Fl.	Lira	C $	B Fr.
£	1.	1.575	2.918	240.3	9.715	2.448	3.295	2074.	2.081	60.40
$	0.635	1.	1.853	152.6	6.168	1.554	2.093	1317.	1.321	38.35
DM	0.343	0.540	1.	82.35	3.330	0.839	1.129	710.9	0.713	20.70
YEN	4.162	6.556	12.14	1000.	40.44	10.19	13.71	8633.	8.662	251.4
F Fr.	1.029	1.621	3.003	247.3	10.	2.519	3.392	2135.	2.142	62.17
S Fr.	0.409	0.644	1.192	98.16	3.969	1.	1.346	847.4	0.850	24.68
H Fl.	0.303	0.478	0.885	72.91	2.948	0.743	1.	629.4	0.632	18.33
Lira	0.482	0.759	1.407	115.8	4.684	1.180	1.589	1000.	1.003	29.12
C $	0.481	0.757	1.402	115.4	4.668	1.176	1.583	996.6	1.	29.02
B Fr.	1.656	2.608	4.830	397.8	16.08	4.052	5.455	3434.	3.445	100.

Yen per 1,000: French Fr per 10: Lira per 1,000: Belgian Fr per 100.

EURO-CURRENCY INTEREST RATES

Mar. 13	Short term	7 Days' notice	One Month	Three Months	Six Months	One Year
Sterling	10⅞-11⅛	10⅝-10⅞	10¼-10⅜	9⅞-10	9{illegible}	9⅝-9¾
U.S. Dollar	5{illegible}-6⅛	6⅛-6¼	6⅜-6½	6{illegible}-6{illegible}	6{illegible}-6{illegible}	6½-6⅝
Can. Dollar	6½-6¾	6⅞-5¾	6{illegible}-6{illegible}	6{illegible}-7{illegible}	7-7⅛	7⅜-7½
D. Guilder	5⅛-5¼	5¼-5⅜	5⅜-5⅝	5⅜-5½	5{illegible}-5{illegible}	5{illegible}-5{illegible}
Sw. Franc	¼-1	⅞-1⅛	4{illegible}-4{illegible}	4{illegible}-4{illegible}	3{illegible}-4{illegible}	3{illegible}-4{illegible}
Deutschmark	3{illegible}-3{illegible}	3{illegible}-4{illegible}	3{illegible}-4{illegible}	3{illegible}-4{illegible}	3{illegible}-4{illegible}	4{illegible}-4{illegible}
Fr. Franc	7⅝-7¾	7{illegible}-7{illegible}	7{illegible}-7{illegible}	7⅞-8	8-8⅛	8⅛-8¼
Italian Lire	9-10	9¼-10¼	⅞-9⅞	9½-10	9⅝-10⅛	9⅝-10⅛
B. Fr. (Fin.)	7⅛-7¾	7⅛-7⅜	7⅛-7⅜	7⅛-7⅜	7⅛-7⅜	7⅛-7⅜
B. Fr. (Con.)	6¾-7¼	7-7½	7-7½	7⅛-7⅜	7⅛-7⅜	7⅛-7⅜
Yen	4{illegible}-4{illegible}	4{illegible}-4{illegible}	4⅝-4{illegible}	4¼-4{illegible}	4{illegible}-4{illegible}	4{illegible}-4⅝
D. Krone	10¼-11⅛	10¾-11⅛	10¾-11¼	10⅝-11⅛	10⅝-11⅛	10⅝-11⅛
Asian $ (Sing.)	1¾-2	N/A	3{illegible}-3{illegible}	3{illegible}-3{illegible}	3{illegible}-3{illegible}	3½-3¾

Long-term Eurodollars: Two years 6¾-7 per cent; three years 7-7¼ per cent; four years 7⅛-7⅜ per cent; five years 7½-7¾ per cent nominal. Short-term rates are call for US Dollars and Japanese Yen; others, two days' notice.

POUND SPOT—FORWARD AGAINST THE POUND

Mar. 13	Day's spread	Close	One month	% p.a.	Three months	% p.a.
US	1.5725-1.5815	1.5745-1.5755	0.58-0.55 c pm	4.30	1.36-1.31 pm	3.39
Canada	2.0754-2.0844	2.0805-2.0815	0.69-0.60 c pm	3.71	1.55-1.40 pm	2.83
Neth'lands	3.29-3.30¼	3.29-3.30	1⅞-1⅝ c pm	6.37	4¼-3⅞ pm	4.86
Belgium	60.23-60.65	60.35-60.45	20-16 c pm	3.58	42-36 pm	2.58
Denmark	10.96-11.02¼	10.97¼-10.98¼	par-¼ore dis	-0.14	¼-¾ dis	-0.09
Ireland	1.0900-1.1120	1.0940-1.0950	0.25-0.40 p dis	-3.56	0.70-1.00 dis	-3.11
W. Germany	2.91¼-2.92¼	2.91¼-2.92¼	1⅞-1⅝ pf pm	7.20	4½-4¼ pm	6.00
Portugal	223.19-224.55	223.20-224.20	43-154 c dis	-5.28	229-346 dis	-5.14
Spain	204.32-205.46	204.50-204.80	55-79 c dis	-3.93	176-220 dis	-3.87
Italy	2069½-2082¼	2073½-2074½	3-11lire dis	1.16	3pm-2 dis	0.109
Norway	10.93½-11.01	10.96½-10.97½	¼-½ ore dis	-0.41	1-1¼ dis	-0.41
France	9.69½-9.75	9.71-9.72	2½-2c pm	2.78	5-4¼ pm	1.90
Sweden	10.14¼-10.21	10.17¾-10.18¾	par-¼ore dis	-0.15	¼-¼ dis	-0.10
Japan	239-241	239¾-240¾	1½-1¼ y pm	-0.15	¼-¾ pm	5.62
Austria	20.49-20.57	20.49-20.52	12½-11 gro pm	6.84	28¼-26 pm	5.29
Switzerland	2.44¼-2.45¼	2.44¼-2.45¼	1½-1¼ c pm	6.74	3¾-3½ pm	5.72

Belgian rate is for convertible francs. Financial franc 60.60-60.70. Six-month forward dollar 2.54-2.49 c pm 12-month 4.55-4.45 c pm.

DOLLAR SPOT—FORWARD AGAINST THE DOLLAR

Mar. 13	Day's spread	Close	One month	% p.a.	Three months	% p.a.
UK†	1.5725-1.5815	1.5745-1.5755	0.58-0.55c pm	4.30	1.36-1.31pm	3.39
Ireland†	1.4370-1.4425	1.4385-1.4395	1.03-0.98c pm	8.38	2.50-2.35 pm	6.74
Canada	1.3185-1.3232	1.3205-1.3215	0.05-0.08c dis	-0.59	0.15-0.20 dis	-0.53
Netherlands	2.0880-2.1000	2.0925-2.0935	0.23-0.18c pm	1.17	0.57-0.52pm	1.04
Belgium	38.30-38.48	38.30-38.40	2-3c dis	-0.78	7-9 dis	0.83
Denmark	6.96¼-6.99¼	6.97-6.97½	2.75-3.45ore dis	-5.33	7.30-8.20 dis	-4.50
W. Germany	1.8480-1.8590	1.8525-1.8535	0.47-0.44pf pm	2.94	1.21-1.16 pm	2.56
Portugal	142¼-142¾	142¼-142½	80-130c dis	-8.87	270-340 dis	-8.59
Spain	129.75-130.26	130.05-130.15	95-105c dis	-9.23	240-270 dis	-7.84
Italy	1314-1320½	1316¼-1317¼	3½-4lire dis	-3.42	10-12 dis	-3.34
Norway	6.95½-6.98	6.96¼-6.96¾	4.70-5.20ore dis	-8.53	13.20-13.50dis	-7.67
France	6.15½-6.18½	6.16½-6.17¼	0.72-0.82c dis	-1.50	2.25-2.45 dis	-1.52
Sweden	6.45½-6.47¼	6.46¼-6.46¾	2.85-3.15ore dis	-5.54	6.90-7.30 dis	-4.39
Japan	152.35-153.40	152.55-152.65	0.28-0.24y pm	2.03	0.87-0.82 pm	2.20
Austria	13.00-13.06	13.01-13.01½	3.00-2.50gro pm	2.53	6.50-5.50 pm	1.84
Switzerland	1.5490-1.5600	1.5530-1.5540	0.36-0.32c pm	2.63	0.91-0.86 pm	2.28

† UK and Ireland are quoted in US currency. Forward premiums and discounts apply to the US dollar and not to the individual currency. Belgian rate is for convertible francs. Financial franc 38.45-38.55.

LIFFE LONG GILT FUTURES OPTIONS

Strike Price	Calls—Last June	Calls—Last Sept	Puts—Last June	Puts—Last Sept
112	10.47	10.54	0.05	0.24
114	8.53	9.07	0.11	0.41
116	7.05	7.32	0.27	1.02
118	5.18	6.02	0.40	1.36
120	3.50	4.47	1.08	2.17
122	2.37	3.40	1.59	3.10
124	1.41	2.45	2.63	4.15
126	1.05	1.61	4.25	5.31

Estimated volume total, Calls 1,298 Puts 454
Previous day's open int: Calls 15,352 Puts 9,251

LIFFE US TREASURY BOND FUTURES OPTIONS

Strike Price	Calls—Last June	Calls—Last Sept	Puts—Last June	Puts—Last Sept
92	8.40	7.55	0.00	0.19
94	6.42	6.10	0.02	0.38
96	4.49	4.41	0.09	1.05
98	3.05	3.22	0.29	1.50
100	1.47	2.19	1.07	2.47
102	0.53	1.32	2.13	3.60
104	0.21	0.59	3.45	5.23
106	0.07	0.35	5.31	6.63

Estimated volume total, Calls 40 Puts 40
Previous day's open int: Calls 290 Puts 231

LIFFE FT-SE 100 INDEX FUTURES OPTIONS

Strike Price	Calls—Last March	Calls—Last April	Puts—Last March	Puts—Last April
19000	10.08	14.50	0.18	0.85
19250	7.82	11.98	0.42	1.28
19500	5.77	10.05	0.87	1.85
19750	4.01	8.20	1.61	2.50
20000	2.60	6.60	2.70	3.40
20250	1.57	5.15	4.17	4.45
20500	0.87	3.95	5.97	5.75
20750	0.45	3.00	8.05	7.30

Estimated volume total, Calls 4, Puts 20
Previous day's open int. Calls 711 Puts 597

LIFFE £/$ OPTIONS

[illegible]

LONDON SE £/$ OPTIONS

[illegible]

PHILADELPHIA SE £/$ OPTIONS

[illegible]

LIFFE—EURODOLLAR OPTIONS

[illegible]

LONDON

[illegible]

CHICAGO

[illegible]

CURRENCY FUTURES

POUND—$ (FOREIGN EXCHANGE)

Spot	1-mth.	3-mth.	6-mth.	12-mth.
1.5750	1.5694	1.5617	1.5499	1.5300

IMM—STERLING

	Close	High	Low	Prev.
Mar.	1.5745	1.5800	1.5710	1.5860
June	1.5610	1.5650	1.5580	1.5750
Sept.	1.5500	1.5550	1.5460	1.5640

LIFFE—STERLING £25,000 $ per £

	Close	High	Low	Prev.
March	1.5753	1.5780	1.5780	1.5860
June	1.5620	1.5662	1.5610	1.5730
Sept	1.5505	—	—	1.5617

Estimated volume 23 (390)
Previous day's open int 1,076 (1,148)

MONEY MARKETS

Waiting for another rate signal

LONDON'S FINANCIAL markets adopted an uncertain attitude at the end of last week. Interbank rates discounted a cut of at least ½ per cent to 10 per cent in bank base rates, but dealers were not sure whether tomorrow's Budget would herald a reduction of 1 per cent.

It was almost possible to forget that it was only last Monday when the Bank of England sanctioned a cut of ½ per cent to 10½ per cent in base rates, by cutting its money market intervention rates.

UK clearing bank base lending rate 10½ per cent since March 10

This came as a surprise, after the authorities had made it clear in recent market operations that a reduction in interest rates was not welcome.

The market expected the Chancellor to retain the option of deciding the level of base rate cuts tomorrow, but the strength of sterling became an overriding factor.

As the pound rose to its highest for eight months in terms of major currencies and for nearly four years against the dollar the Bank of England endorsed lower base rates last Monday.

Discount houses remained reluctant to sell longer dated bills to the Bank of England however, and the band 3 and 4 levels may have been tested, but not dealt at.

Very large credit shortages on Thursday and Friday were mainly absorbed by bill repurchase agreements, at attractive rates of around 10⅞ per cent, but for fairly long periods, running to the end of the month and into April, giving the market no hint that base rates will be cut again this week.

FT LONDON INTERBANK FIXING

(11.00 a.m. Mar. 13) 3 months U.S. dollars		6 months U.S. dollars	
bid 6 ⅜	offer 6½	bid 6 ⅜	offer 6 ½

The fixing rates are the arithmetic means, rounded to the nearest one-sixteenth, of the bid and offered rates for $10m quoted by the market to five reference banks at 11.00 a.m. each working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Banque Nationale de Paris and Morgan Guaranty Trust.

BANK OF ENGLAND TREASURY BILL TENDER

[illegible]

WEEKLY CHANGE IN WORLD INTEREST RATES

[illegible]

MONEY RATES

NEW YORK (4pm)

		Treasury Bills and Bonds			
Prime rate	7½	One month	5.31	Three year	6.52
Broker loan rate	7⅛-7½	Two month	5.46	Four year	6.69
Fed. funds	6	Three month	5.78	Five year	6.77
Fed funds at intervention	6	Six month	5.85	Seven year	7.00
		One year	6.00	10 year	7.18
		Two year	6.40	30 year	7.50

[illegible]

LONDON MONEY RATES

[illegible]

LONDON RECENT ISSUES

EQUITIES

[illegible]

FIXED INTEREST STOCKS

[illegible]

"RIGHTS" OFFERS

[illegible]

Renunciation date usually last day for dealing free of stamp duty. a Annualised dividend. b Figures based on prospectus estimates. d Dividend rate paid or payable on part of capital, cover based on dividend on full capital. g Assumed dividend and yield. h Assumed dividend and yield after scrip issue. F Dividend and yield based on prospectus or other official estimates for 1986/7. H Dividend and Yield based on prospectus or other official estimates for 1987. L Estimated annualised dividend, cover and p/e based on latest annual earnings. R Forecast annualised dividend, cover and p/e ratio based on prospectus or other official estimates. W Pro Forma Figures. t Indicated dividends; cover relates to previous dividend; p/e ratio based on latest annual earnings. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. ¶ Issued by tender. ‖ Offered holders of ordinary shares as a "rights." ‡‡ Introduction. ** Issued by way of capitalisation. § Placing price. §§ Reintroduced. ¶¶ Issued in connection with reorganisation merger or takeover. ■ Allotment price. ✣ Unlisted securities market. †† Official London listing. ‡‡ Including warrants entitlement.

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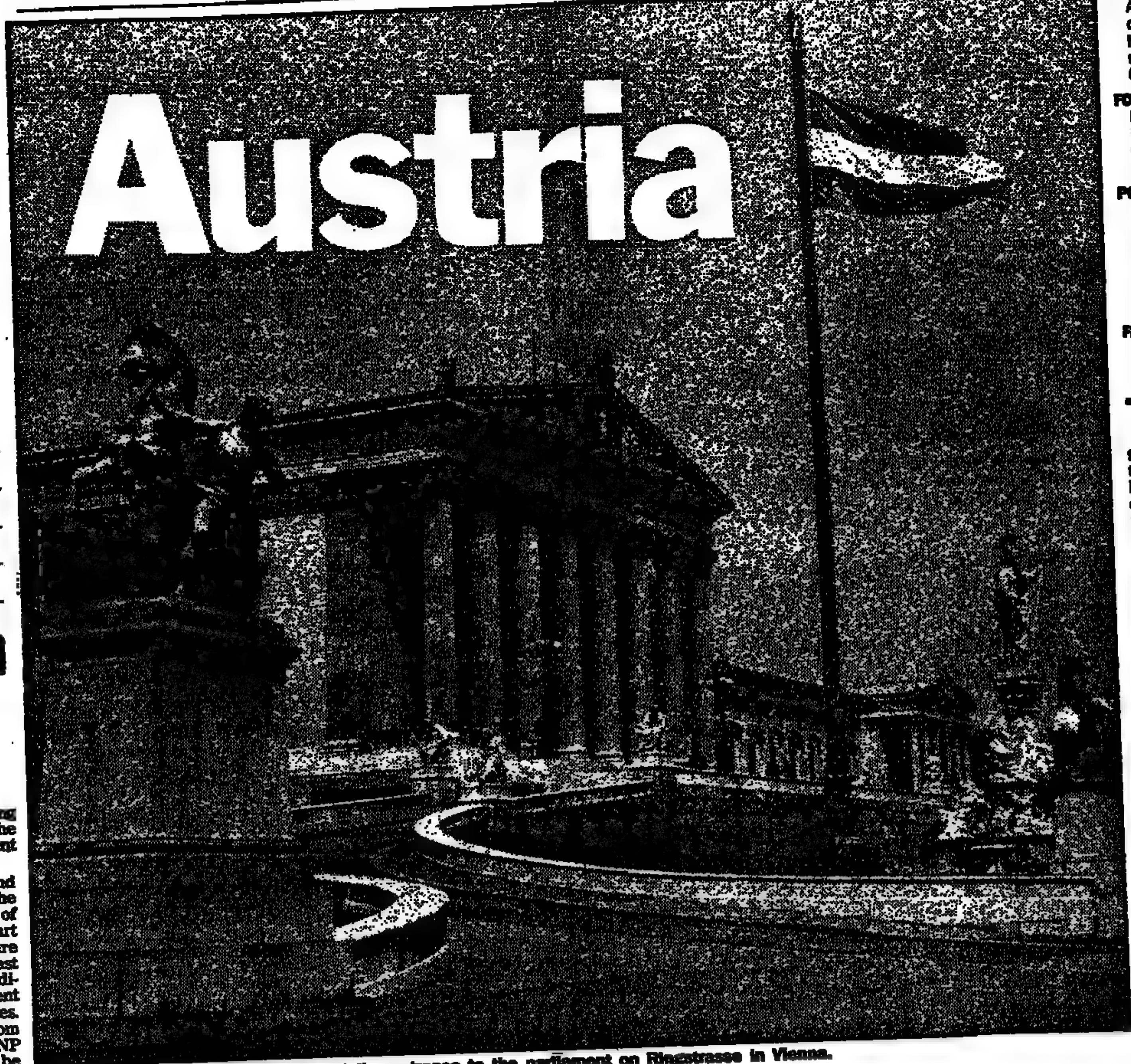
SECTION III

FINANCIAL TIMES SURVEY

Monday March 16 1987



Austria's red-white-red flag flutters at the entrance to the parliament on Ringstrasse in Vienna.

CONTENTS

Long a model of industrial peace and successful economic management, Austria needs to adapt to the fiercer economic climate of the late 1980s. The main parties have joined in a coalition bridging the gulf between left and right to seek solutions. First steps have been faltering.

Quest to loosen set patterns

AUSTRIA is sorting itself out after what by the standards of the place, was a series of political and economic earthquakes.

A coalition of Socialists and the conservative People's Party, opponents for almost 20 years, has come about as the result of an inconclusive general election, budget deficits have reached the threshold of pain and state-owned industry has run into deficits which are no longer sustainable.

On the international stage the event of 1986 was the election of Dr Kurt Waldheim, the former Secretary-General of the UN, to the Austrian presidency as candidate of the conservatives. A series of allegations that he must have been involved in wartime atrocities committed by the Nazis in the Balkans was never convincingly borne out, but Dr Waldheim's fumbling defence damaged not only his reputation, but that of Austria.

The Grand Coalition of Socialists and People's Party under the leadership of a Socialist Chancellor, Dr Franz Vranitzky, was founded because it seemed the best way to find consensus solutions to the internal problems, but partly also because every other viable alternative would have brought into Government the Freedom Party, a traditional amalgam of continental-style liberalism and right-wing politics. Under the leadership of a Young Turk, Mr Joerg Haider, the nationalist right-wing element had come to the fore noisily.

First and foremost the grand coalition will need to redefine the Austrian position on a series of major issues. So far, only a start has been made, but though there are many cross currents, at least the intended direction is indicated in the coalition agreement between the two big parties. Budget deficits are to be cut from 5.1 per cent to 2.5 per cent of GNP by 1992, the tax system is to be made less cumbersome and, above all, less riddled with loopholes. State-owned industry is being told, not for the first time, to make ends meet, this time by 1990—or else. To Dr Vranitzky, privatisation is not a dirty word.

As regards Austria's position in the world, the foreign minister and vice-chancellor, Dr Alois Mock, is concentrating on relations with the great powers and upon Europe, playing down the excursions made into Middle Eastern politics during the 1970s, which proved both ineffectual and unpopular. His hardest job, probably, will be to redefine Austrian relations with the European Community.

The objective, as he describes it, is the "closest co-operation and association that is possible fully respecting Austria's position as a permanently neutral country."

In particular, Austria wants to put a stop to discrimination against its farm produce resulting from the Common Agricultural Policy of the 12. It wants to be a partner in community research and technology programmes, a field where a framework agreement for co-operation was concluded last year.

It wants also to share as fully as possible in the development of the internal market of the Community, instead of being limited to the duty free exchange of industrial goods only under an existing free trade agreement.

Vienna sees a series of ad hoc agreements as the best route towards achieving these aims. An overall new agreement with the Community would take too long. One might add that Dr Mock must know that the Community itself has more urgent priorities than a full scale negotiation with Austria.

Dr Mock will even entertain the idea of Austria being somehow associated with the community's process of political co-operation—provided it is a consultative process not impinging upon Austrian sovereignty, not one in which binding decisions are taken by majority vote. He denies that Moscow has raised any objections.

"Interpreting our neutral status is exclusively a business for the Austrians," he says, though he does add: "Of course, we have a very strong interest to ensure that our permanent neutrality should remain credible."

Though the primary reason for seeking closer links with the EEC is avoiding discrimination and sharing in technological progress, to some advocates another, maybe less popular, motive is at play. It is their hope that fuller exposure to competition from the community will help to break some of the rigidities in Austrian society. Service industries, including the retail trade, have unmistakable semi-cartel characteristics and the academic world is often content with its own Austrian backwater.

Breaking up rigidities and removing distortions has become a fashionable catchphrase and covers a multitude of subjects. A proposed tax reform is intended to reduce what is, in effect, a high degree of tax exemption for interest paid on savings accounts, in order to encourage the formation of risk capital instead.

The idea of running down overmanning and uneconomic plant in the large state-owned sector of industry and of privatising at least partially some businesses is incorporated in the coalition agreement. Subsidies to industry, a ragbag to cost Sch 8.5bn a year, not including subsidies to pension funds and to the railways, are to be reduced.

Such is the intention. But since the coalition pact was negotiated, the economic outlook has darkened. The 2 per cent growth forecast made towards the end of 1986 may prove to have been far too optimistic. As a result, revenues may fall short and the budget deficit prove greater than expected. The readiness, not only of the Socialists, to follow the free market route implicit in the strategy of the coalition pact, could suffer.

Failure to deal with the tasks the coalition has set itself, but equally too rough a passage if the economy should decline, would accentuate the trend towards protest parties revealed in last year's election. The Freedom Party, under Mr Haider's populist leadership, collected more votes than ever before. So did the Greens under the leadership of Mrs Freda Meissner-Blau.

Environmentalist sentiment has become a serious political factor. It caused the previous government to abandon the Zwentendorf nuclear power plant which was built, but never commissioned, and is to be broken up.

The current Government has decided to continue harnessing the Danube for electric power. It will find it hard to overcome environmentalist opposition of the kind that exploded in demonstrations in 1985 leading to the postponement or even abandonment of a hydro scheme at Hainburg, near Vienna.

Another row has been going on for months because the province of Styria, under a People's Party Government, is resisting plans to station newly-purchased interceptor fighters on its territory, because of the noise.

So what remains of the model which Austria was held up to be until quite recently?

Budget deficits apart, the economic fundamentals remain quite good. Unemployment, at 6 per cent in the depth of winter, was lower than in most Western European countries. The current external account is more or less balanced though dwindling export demand, especially from Germany, may increase a forecast small deficit this year of Sch 3bn (about £158m). Stable foreign exchange reserves support the traditional hard currency policy which permitted Austria to follow the revaluation of the Deutsche Mark in January.

The much vaunted institution of social partnership—in effect a tacit agreement of labor and management to live and let live—is largely intact. These are solid assets, but they could waste away quickly if the coalition should lose its way.

W. L. Luetkens

Key facts and indicators

President of the Republic: Dr Kurt Waldheim

Head of the Grand Coalition Government of Socialists and People's Party: Chancellor Franz Vranitzky

Population: 7.6m; labour force 2.89m

Capital: Vienna

Official language: German

Currency: Austrian Schilling; Sch 1=100 Groschen

Unemployment, average figure in 1986: 5.2%

Inflation (GDP deflator): 4.9% in 1984; 3.3% in 1985; 3.8% in 1986; 4.7% forecast for 1987

Exchange rates, covering period January 1985-January 1986: Sch 24.28 to Sch 19.68=£1; Sch 17.17 to Sch 13.06=$1

GDP per head: $8.535 (OECD figure at current prices and exchange rates)

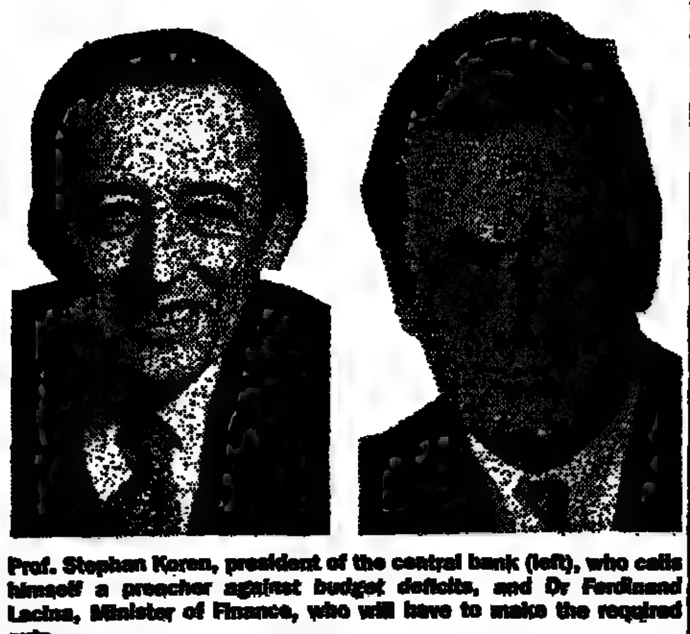
Real growth rate GDP, 2%, 1984; 3%, 1985; 2%, 1986

Balance of merchant trade: (in Sch m); −77.634 in 1985; −63,003 in 1986

Current external balance (in Sch m): −10,848 in 1984; −1,982 in 1985; and +2,582 in 1986

Economic prospects

An unexpected reverse after early promise



Prof. Stephan Koren, president of the central bank (left), who calls himself a preacher against budget deficits, and Dr Ferdinand Lacina, Minister of Finance, who will have to make the required cuts.

ECONOMIC PROSPECTS for Austria looked bright at the beginning of this year, but have suffered badly as the result of an unexpectedly big reverse to West German export prospects.

Austria shares German technology and delivers large amounts of components to West German industry. Therefore its exporters always do best when the Germans are going full tilt. But at no time during the 1980s has German industry been extended sufficiently to export a real boom to its small neighbour.

Now that West German growth it faltering, the Austrians are bound to feel the effect. The Wifo Economic Research Institute in Vienna estimated last December that real growth in Austria in 1987 would match last year's 2 per cent. Three months later it was clear that the forecast was too high. Guesses to be heard in Vienna at the beginning of March ranged downward from 1 per cent growth to a possible contraction of gross domestic product.

Whereas Austrian exporters last year held their own in the markets of industrialised Western European countries, important, if smaller, markets such as North America, Opec and Eastern Europe contracted badly.

The reasons are evident: the decline of the US dollar and of the oil price and financial stringencies in Eastern Europe. All these factors will in all likelihood remain effective this year.

Reduced growth in West Germany—which last year took about a third of total Austrian exports of Sch 342.5bn (about £18bn), and where Austrian sales still showed growth—will hit the Austrian outlook all the more painfully.

Hopes that domestic demand might fill the gap are likely to remain an illusion. Exports account for about a third of Austrian gross national product, so that events abroad have an above-average impact upon Austrian economic activity.

Moreover, consumer confidence in Austria must have been badly damaged by the severe financial troubles of state-owned industry. Consumers saved an unusually large portion of their incomes last year and there is little news around which is calculated to draw them from their reserve.

Nor is fiscal policy expansionary, since the new coalition Government of Socialists and the conservative People's Party has vowed to bring down budget deficits, which have proved unsustainable. For the time being that is the end of the anti-cyclical deficit financing which served Austria well in the late 1970s, but which also reached the limits of what was feasible fiscally.

The long-term strategy of the coalition pact includes a tax reform designed to close loopholes and reduce marginal tax rates, both to simplify the system and to reduce the incidence of tax avoidance and tax evasion. Overall revenue is intended to remain stable: cuts are to be made to expenditure including—if initial intentions prevail—cuts into the proliferating system of industrial and farm subsidies.

For a start, the deficit in this year's budget has been stabilised around 5 per cent of GDP and the intention is to halve that figure by 1992. Prof Stefan Koren, president of the Central Bank, has said that Austria could live with the latter figure, but has also asked for real progress to be made in the 1988 budget due next autumn.

The implication is that failing such progress it will become harder to keep up the hard currency policy pursued for many years. The policy amounts to keeping the Austrian Schilling stable in terms of the Deutsche Mark. When the West German currency was revalued in January, Austria duly followed at once.

That policy has retained its credibility in financial markets. Austrian foreign exchange reserves have remained stable throughout 1986 and foreign investors hung on to their Schilling bonds. The amount held abroad is around Sch 40bn-50bn, made attractive by a yield slightly higher than that of German bonds and by the prospect of participating in German revaluations.

The hard currency policy is a centrepiece of anti-inflation strategy. It has been backed fully by the trade union federation which sees it as a main condition for its traditionally moderate wage claims.

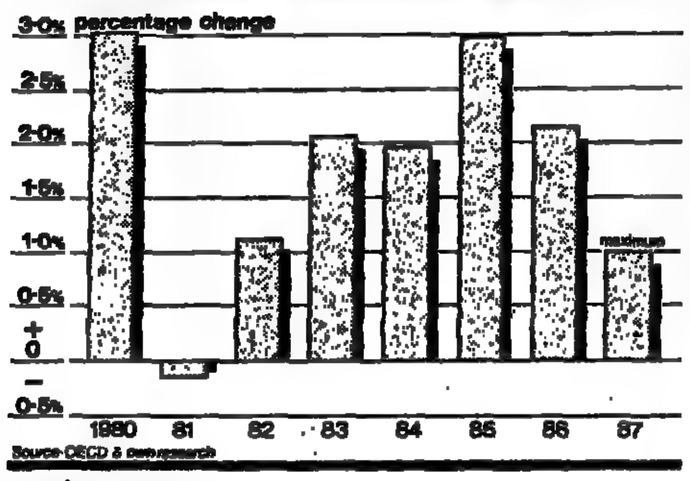
The result has been a relatively low inflation rate, though last year's 3.8 per cent was less outstanding by international standards than some previous performances. Because inflation is low, the effect of revaluations upon export prices is less than might appear. But overall Austrian exporters have had to make greater price concessions than their competitors in Switzerland and West Germany, meaning that Austria has been buying market share at the expense of some profit.

None the less cashflow improved last year and Austrian industry embarked on a minor investment boom. The stress, however, was firmly not upon expanding capacities but upon rationalisation. That suggests that necessity rather than especial optimism was behind the boom.

It also suggests that Austria may find it hard to maintain its better-than-average record with unemployment. Last year the unemployment ratio averaged 5.2 per cent (compared with 7.8 per cent in West Germany). Since state-owned industry is cutting staffs to meet a fierce financial and structural crisis, there is a danger that the unemployment ratio in Austria will converge with that of less fortunate countries.

W. L. Luetkens

Gross National Product



Source: OECD & own research

Foreign Investment

Notable successes

"AUSTRIA ... the envy of western Europe," says the advertising blurb on a guide for investors, extolling the country's economic prosperity, political stability and social peace. The image of smooth efficiency appears to run counter to the well-publicised troubles that have beset Austria's nationalised industries.

Yet foreign manufacturing investment in Austria has been rising steadily with major new ventures in the electronic and motor industries last year.

According to Mr Gerald Genn, chairman of Austria's Industrial Co-operation and Development Agency (ICD), his company helped to bring investment worth over Sch 3bn ($234m) to Austria in 1986, its most successful year since it was founded about five years ago, primarily to promote job creation in unemployment black spots.

About 2,000 new jobs will have been created when new projects by General Motors of the US, Sony Corporation of Japan, and several European companies are completed. Mr Genn says that the benefit in jobs as well as in orders for Austrian industry are considerable.

"There is a ripple effect that extends far beyond the original investment," he says.

Some 1,400 Austrian companies supply parts to General Motors' existing engine and gear box plant in Vienna alone. Their number is set to grow following a decision by GM's Rochester division last March to chose Vienna for manufacturing electronic fuel injection components. The whole output will be exported back to the US.

The new facility will be located on GM's large Vienna site. The investment in new plant and machinery will reach Sch 1.2bn ($94m). The amount of subsidies for the new project from the Austrian Government and the city of Vienna was not disclosed but is believed to be between a quarter and a third of the investment.

Packard Electric, a GM subsidiary, has also decided to take over and re-equip a plant which formerly belonged to Scholl, the specialised footwear manufacturer, in Austria's easternmost province of Burgenland, to manufacture electric cables and wiring harnesses for cars. The investment is more modest at about Sch 130m. It will help to save 600-800 jobs which would otherwise have been lost in a region of limited employment opportunities.

GM first decided to choose Austria as a manufacturing base for engines and gear boxes in 1979 as part of plans to establish full car production in Europe. After dismissing West Germany, Britain, Belgium and Italy on the grounds of costs or difficult labour relations, the choice was reduced to France, Spain and Austria. In the end, GM chose Spain (for assembly and some components) and Austria.

Since then, investment for the original plant, built on the site of Vienna's old international airport, has reached about $700m. Government subsidies were high, covering about one third of the original investment in cash, in addition to providing the land for the plant and training for its workers.

These unusually high subsidies caused some local criticism, but both the Austrian authorities and GM say they are well pleased with the results. It is on the strength of this experience that GM decided to expand production in Vienna.

"The Aspern (Vienna) plant has top quality rating among GM plants," says Mr Edwin Kiefer, general manager of the plant.

Other advantages include high productivity, lower wages and lower overall labour and plant costs compared with the US or other major West European countries. Austria is also free of strikes and labour unrest, he says.

These qualities appear to have been decisive factors behind Sony's decision to set up its only European compact disk (CD) manufacturing plant in Austria. Total investment for the project which is to be completed in two stages is planned at about Sch 1.2bn with an initial investment of Sch 820m to set up the plant. Government subsidies cover more than 20 per cent of the original outlay.

The Austrians hope that Sony's move will attract other Japanese companies and high technology investment to their country. Mr Genn points out that besides domestic advantages Austria also offers duty-free entry into the European Community.

Dr Theo Ettel, managing director of Philips Austria, says that good labour relations—"there have been no strikes as far as I can remember at least since the 1950s"—the higher the volume of production, the greater the advantages. "Industrial productivity is very good provided you get economies of scale... you need volumes that can be compared with (those in) the Far East," he says.

Philips has been present in Austria since the 1920s and over the years it has gradually expanded its production to become the country's fourth largest exporter with total sales of Sch 16.2bn and exports of Sch 11bn last year. It owns factories in Vienna, Carinthia, Styria and Upper Austria. A new plant on a vast site on the outskirts of Vienna was recently completed at a cost of about Sch 2bn over four years with Government subsidies covering about 30 per cent of the investment.

Dr Ettel believes that labour costs below European peak rates are an advantage but that productivity in Austria has to be measured against that of his competitors in the Far East—in Japan, South Korea, Singapore and Malaysia.

Mr Gerald Genn: best year yet for the Industrial Co-operation and Development Agency

A key element in the equation is flexibility on the factory floor.

There were difficult negotiations with the trade unions and, as yet, it is only in place for parts of production, but he says "in practice, in private companies labour flexibility is greater than in other countries," and he is optimistic that full continuous production will be achieved.

Dr Ettel says that the quality of Austrian suppliers is good but still limited in range. Philips Austria buys up to 30 per cent of its supplies locally. It still has to import some supplies from the Far East.

"The more industry grows in this country, the more we will be able to get our supplies locally," he says.

That view is shared by Mr Kiefer at GM.

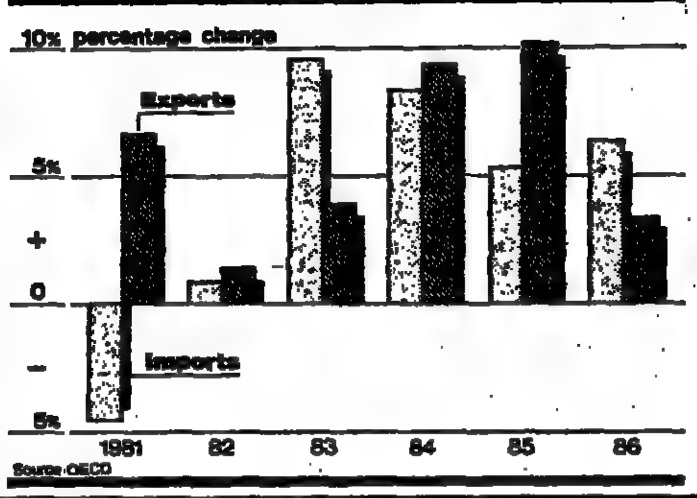
"Lots of materials are not available (here) yet. We expect that in a few years there will be more choice. Austrian industry will have to push forward on this," he says.

The Government believes that a growing number of joint ventures with foreign partners of all sizes may help to fill some of the gaps in Austrian industry. It also hopes to attract more companies from the electronics and car industries.

After a slow start and some mistakes—a planned joint venture between Voest-Alpine, the troubled state-owned steel and engineering group, and Oki Electric of Japan to manufacture commodity chips collapsed before it could get off the ground—the Austrian authorities achieved some notable successes in their efforts to bring foreign investment to Austria in 1986. More projects are under negotiations and Mr Genn at least is hopeful that several will be agreed this year.

Patrick Blum

Manufactured goods: trade volume



Source: OECD

Political scene

Coalition shot at from both sides

CONSERVATIVES and Socialists are finding cohabitation in government more problematic than expected. *Austria's* "Grand Coalition" between the Socialist Party and the People's Party may be only two months old but it has already been beset by numerous public disputes and internal party rows.

It is too early for the disagreements to threaten the coalition—it still has widespread support and there is no evident alternative immediately at hand—but they highlight some of its weaknesses and offer easy targets for attacks by critics on right and left.

Both *parties* agreed to sink their differences following an inconclusive general election in November which left neither in a position to form a viable government on its own.

The Socialists remained the largest party with a narrow majority in Parliament having lost 10 seats and falling well short of an overall majority. The People's Party had one of its worst election results for decades losing four *seats and* trailing behind the Socialists.

The only gainers were the small *right-wing Freedom Party* and the "Greens." The Freedom Party led by Mr Joerg Haider, a populist with strong nationalist colours, almost doubled its share of the vote winning 18 seats. The "Greens," an amalgam of environmentalists, rural conservatives and left-wing radicals, won almost 5 per cent of the vote *despite* internal quarrels and entered Parliament for the first time with *eight seats.*

Both the Greens and the Freedom Party benefited from widespread public dissatisfaction with the big parties winning a large number *of protest votes.*

There were voices in favour of a small coalition with the Freedom Party—such as existed before the elect*ion—but this* was rejected as unacceptable by the Socialists because of the *Freedom* Party's sharp lurch to the right, and as too precarious—as well as potentially damaging to Austria's image—by the People's Party.

Joerg Haidder, Freedom Party leader, a populist with strong national colours

A coalition *or* power-sharing arrangement with the "Greens" was not on the cards since it would not have provided a working and stable majority.

Despite opposition to a "Grand Coalition" inside and *outside the main parties on the* grounds that it would mean diluting each party's own programme and that it would encourage complacency, patronage and inefficiency, it was seen as the only way to solve some of the country's pressing economic problems. A government programme was agreed after several weeks of difficult negotiations and some bickering over who was to get what *ministerial* job.

According to unpublished party polls, the two coalition parties have both been losing support since the elections. The Socialists buoyed by the sustained popularity of Dr Franz Vranitzky, the Socialist Chancellor, have been more successful at holding their ground, but the People's Party has fallen back several percentage points.

The recent rows over energy policy, plans for tax reforms and defence policy among others seem to be slowly eroding pub*lic confidence.*

The latest and possibly most damaging row so far has been over government plans to station newly-bought Saab Draken *interceptor aircraft in* the province of Styria.

The plan has met fierce opposition from Mr Josef Krainer, the powerful and popular conservative governor of the province, on the grounds of noise and pollution. The govern*ment has been thrown on the* defensive and now faces the almost impossible task of finding an acceptable alternative site.

The issue has led to a major row within the People's Party with Dr Alois Mock, the party leader, Vice-Chancellor and Foreign Minister, so far unable to bring the troublesome Mr Krainer to heel.

The decision to purchase *second-hand Drakens from* Sweden was agreed last year by the former Socialist-led small coalition government. It was strongly criticised at the time on the grounds that the aircraft were too expensive, too old and not appropriate to Austria's needs. *Dr Mock* believes that the deal should be scrapped and that the government should consider another aircraft.

The row has fuelled criticism of the government. *Mr Norbert* Gugerbauer, general secretary of the Freedom Party, says that the Government's inept handling of the issue is threatening to make Austria a laughing stock.

Dr Vranitzky admits that the Government has not always appeared as united as it claims to be and that there is disenchantment within the Socialist Party.

There is quite a lot of frustration with party life. The last time that the Socialist Party won an absolute majority was in 1979, he says.

"If there are questions about the party now, they go back to the late 1970s and early 1980s," he adds.

There are many pitfalls ahead. The Government's deci*sion to re-examine the possibility* of building more power plants on the Danube east of Vienna *is likely* to generate strong opposition. Initial plans to build a dam and power plant at Hainburg, near the Czechoslovak border, had to be abandoned after violent clashes between police and environmentalists on the site in December 1984. This was a major victory for the Greens and their first real show of strength.

Green politicians have already called for a "grand *coalition" of environmentalists* to fight any moves to resurrect the project.

Dr Vranitzky appears resigned to trouble—"Whatever we do, whether this project or another project on the Danube, there will be a lot of protests," he says.

The danger is that it could split the Government.

The coalition will also be wrestling with restructuring the nationalised industries. The Government has indicated that some jobs will be lost in the process. The trade unions and the Socialist Party's left have so far reluctantly accepted the need for rationalisation in the state industries, but pressure from below could resurface if the Government is seen to falter.

Not everyone in the Socialist Party agrees with Dr Vranitzky's social democratic and liberal *blend of politics, and many in* the People's Party remain unconvinced about the merits of the "Grand Coalition" which they see as a sell-out of the party's promised radical change in Government policy.

With about 85 per cent of the vote at the last general election, the coalition is in a position to push through unpopular measures, but there are many danger spots that could trip the Gov*ernment in the not-so-distant* future.

Patrick Blum

Party electoral performance

	Nov 1986 per cent	Nov 1986 seats	April 1983 per cent	April 1983 seats
Socialists	43.1	80	47.7	90
People's Party	41.3	77	43.2	81
Freedom Party	9.7	18	5.0	12
Greens	48	8	3.3	—

The pace quickens for Dr Franz Vranitzky, Coalition Leader

Moving into high gear

VRAAANZ, screamed the car sticker for the election campaign of Dr Franz Vranitzky and the Austrian Socialists, neatly matting his name with "vroom," the strip cartoonist's short-hand for fierce acceleration.

Dr Vranitzky, 48: swiftly catapulted into power

Dr Vranitzky's turn of speed once upon a *time* earned *him a* place in the national basketball team, but was more recently demonstrated in a public career that catapulted him to the head of the Austrian Government in a very short time.

He was put in charge of one of the country's leading banks, Laenderbank, when it was in deep trouble in 1981. In 1984 he became Finance Minister when budget deficits had begun to look incurable.

Last year, at the early age of 48, he moved up to Chancellor when the Socialists found themselves in deep trouble after the election of a conservative, Dr Kurt Waldheim, to the Presidency.

Dr Vranitzky more or less delivered the goods on November 23 last when the Socialists unexpectedly remained the largest party in a general election. He persuaded the electorate that, as banker, he knew more about business than his opponents at a time when the Austrian economy was beginning to look ragged.

His performance at least for the time being quietened more ideologically-minded Socialists who disliked his pragmatic and technocratic ways. *But the trouble-shooter* will have to keep on moving fast if he is to maintain *his hold* over party and government.

Not only the party needs holding together: the Government is a coalition of Socialists with the conservative Austrian People's Party who have been fighting each other for at least 20 years, and who have come together now because it seemed the best way to solve a host of daunting problems: budget deficits, huge losses in state-owned industry, and an increasingly expensive welfare system.

Dr Vranitzky's attitude to these problems is simple if not traditionally socialist. "In the long run the welfare state can be financed only by a profitable economy," he says. And: "Nowhere in the world is there such a thing as a guaranteed job." And again: "*Government has no managerial* function in business." What matters is not so much who owns a business, but how successfully it is run.

So what is the relevance of socialism in 1987?

As though unhappy with such *abstractions*, *the* Chancellor answers slowly, but in concrete terms: "We must listen to people much more, get a feeling for what they want, what they are *afraid of* . . . and I do think that one needs to consider that the state and bureaucracy and all those anonymous institutions no longer are very attractive to people—not *only* in *Austria*."

Much and maybe all of that is acceptable to the People's Party. Yet the opening weeks of Dr Vranitzky's Grand Coalition with the conservatives has been marked by public bickering not so much between the two parties as by ministers floating pet schemes without cabinet agreement.

Dr Vraaanz is philosophical about that—at least so far.

"This is not the only government in the world where members express differing views on the same topic."

W. L. Luetkens

Dr Alois Mock and the People's Party

Master of compromise

DR ALOIS MOCK who cumulates the *functions* of Vice-Chancellor, Foreign Minister and *leader of the conservative* People's Party finds himself perhaps more than any other Austrian politician buffeted by contrary pressures and lobbies.

The People's Party has always been an unruly coalition racked by conflicts between farmers, industrialists, public servants, and a blue and white collar workers' section. Its leader has to tread carefully between the need to uphold political unity and purpose and party discipline without antagonising its constituent parts which include very powerful vested interests in the provinces where the party has most of its support.

Add almost 17 unbroken years of opposition and it becomes easier to understand why Dr Mock faces an uphill battle to keep his troops all marching in the same direction and to the same tune.

During the difficult negotiations with the Socialists after last November's general election, which left none of the parties with a workable majority, senior *People's Party* politicians argued against one another in public, often acrimoniously, over what to do next.

Mr Erhard Busek, the Deputy Mayor of Vienna, who is popular with environmentalists, was against a coalition, preferring further opposition.

Some leading provincial politicians came out for a "grand coalition" with the socialists while others favoured a coalition with the small nationalist and staunchly right-wing Freedom Party.

Dr Mock's own position was seriously threatened following the party's poor performance in the election and a momentary breakdown from stress.

Internal but very public party rows have continued unabated since the Coalition Government with the socialists was established in January. There have been rows over plans to build new power *plants* on the Danube, over plans to station a new interceptor aircraft in the province of Styria—the conservative governor of the province has announced that this was unacceptable because of noise and pollution—and rows over the choice of People's Party ministers in the new Government.

Dr Alois Mock: holding an unruly party together

For all that, Dr Mock believes that his party will settle down as the demands of government assert themselves.

"It's a question of adaptation. We have to apply some first aid measures which conflict with groups and regional interests," he says.

"Nobody should be forbidden to think," he adds in obvious recognition that any attempt to overrule his critics in the provinces would probably be fruitless and counter-productive.

When asked whether he is confident that he will retain his party's support for the Coalition Government and for himself as party leader he gives an unequivocal answer: "Yes, why not. Every party has its problems."

But not everyone is convinced.

Since becoming party leader in 1979, Dr Mock, now 52 years old, has relied on compromise, aiming at practical solutions rather than adherence to *ideological purity. This* has made for uninspiring leadership, but it has kept an exceedingly quarrelsome party together.

Dr Mock's personal style is also reflected in his approach to foreign policy. The objective of foreign policy must be, above all else, to secure and preserve Austria's independence, he says. This means, first and foremost, cultivating good relations with the Soviet Union and the US, then with Austria's neighbours, giving greater emphasis to the European Community.

Austria's role in other parts of the world, especially in the Middle East—a keystone of policy under Dr Bruno Kreisky, the former chancellor and socialist leader—comes farther down the list of priorities.

Foreign policy will be less ambitious and more clearly centred on Austria's immediate *practical* interests as a small industrialised European state.

Dr Mock's party critics say that he is giving too much away to the Socialists. He is still recovering from his election disappointment and he will need to use all his political abilities in the forthcoming months *to keep* his party under control and in one piece.

Patrick Blum.

Financial institutions

Worries for bankers

FINANCIAL INSTITUTIONS in Vienna face more difficult times after two years of high growth and profits. Renewed competitive pressures at home and the worsening financial climate abroad caused by the growing debt crisis in Latin America have made prospects more uncertain for 1987.

The exposure of Austrian banks in Latin America—currently at Sch 13.8bn with Brazil accounting for Sch 3.9bn—is modest by international standards, but the crisis is worrying Austrian bankers who fear its practical consequences internationally and its impact on the credibility of banks domestically.

Fierce competition on the domestic market at a time when the economy looks set to grow at a slower rate than forecast and when the banks are already facing pressures to meet touch new requirements in capital ratios under a new banking law are additional reasons for concern.

The new law presents Austrian financial insitutions with their biggest challenge since the sweeping liberalisation of the late 1970s. It requires the banks to raise the ratio of their share capital and reserves to 4 per cent of balance sheet totals by 1991 and to 4.5 per cent within the following five years.

In effect, it will compel them to be more efficient and to improve their profitability—two major, if unwritten, objectives of the law.

Austrian banks suffer from some of the lowest capital ratios and profit margins in their field among the group of industrialised countries. Liberalisation opened up a period of cut-throat competition during which costs soared and profit margins fell sharply.

In recent years there has been growing pressure on the banks to improve their performance. The threat of Government intervention encouraged them to seek some form of self-regulation and in January 1985 they struck a gentleman's agreement to curb competition by regulating lending and borrowing rates and to restrain "unfair" advertising practices.

The agreement brought temporary improvements but it could not be enforced or sustained as individual banks sought to gain advantage over their competitors. By the summer of 1986 it had effectively broken down but by then the Government had already agreed on new legislation.

Apart from establishing strict minimum capital ratios, the law introduces several instruments including new types of participation and subordinated capital to help the banks raise equity. The participation certificates are roughly equivalent to risk bearing non-voting shares which carry higher distributions than for ordinary shares but receive no distribution in the case of losses.

According to Finance Ministry estimates within the first five years, the banks will need to raise between Sch 50bn and Sch 100bn depending on business growth. Assuming a 5 per cent growth rate the amount to be raised would be in the region of Sch 85bn.

Creditanstalt Vankverein, Austria's largest bank, expects to have to raise capital and reserves by about Sch 10bn by 1991 to meet the new requirements. The Girozentrale Bank estimates that on the basis of a 6 per cent annual increase in its balance sheet over the next five years it will need to raise about Sch 6bn, and Osterreichische Laenderbank estimates that it will need to raise about Sch 5bn.

Competition among the banks for funds is high and some moved quickly to gain a head start in the market. Creditanstalt made the first issue of participation certificates in June for a nominal Sch 100m.

This was followed by another issue in October for Sch 168m which was partly placed in Switzerland. It also made two standard share issues, one in April for Sch 300m and another in November for Sch 100m.

Dr Guido Schmidt-Chiari, Creditanstalt deputy chairman, says that the bank's capital and reserve ratio to balance sheet total has been raised from 2.68 per cent at the end of 1985 to 3.12 per cent now. The timing of further moves to raise capital will depend on market conditions, he says.

Laenderbank launched the first international issue of participation certificates in September. The issue for a nominal value of Sch 200m was led-managed by Credit Suisse First Boston and offered to investors in Frankfurt, Zurich and London.

It also launched a floating rate note issue split in two parts, a first part for Sch 400m in November followed by an additional Sch 130m in December. In January it issued ordinary shares with a nominal value of Sch 150m raising about Sch 400m.

A further issue of Sch 50m is planned in the spring and another Sch 150m for the beginning of next year. The bank's capital ratio has been raised from 2.7 per cent of balance sheet in 1985 to 3.22 per cent at the end of last year.

Girozentrale raised its capital by Sch 1.5bn and will raise as much again by 1991. In the meantime it plans to issue participation certificates with a nominal value of Sch 500m on the domestic and foreign markets. Several other banks have tapped the market for funds since December and the big three are likely to wait for the domestic market to settle down before seeking to raise more capital.

Dr Schmidt-Chiari says that earnings last year were well up on 1985 with particularly strong growth, for the second year running, in the securities business. Consolidated banking group profits before allocation to reserves and after tax were up from Sch 562.5m in 1985 to Sch 968.9m last year.

Parent bank operating profits excluding own account trading in securities and currency rose from Sch 1.84bn to just over Sch 2bn last year. The bank will be increasing its dividend from 10 per cent to 12 per cent.

Vienna headquarters of Oesterreichische Laenderbank, one of the two major state-owned commercial banks in Austria.

Dr Karl Pale, chairman of Gironzentrale which celebrates its 50th anniversary this year, describes 1986 as a year of strong growth particularly in investment banking and the securities business. According to initial estimates profits are expected to increase by about 8 per cent on balance sheet total up 6 per cent to Sch 265.7bn.

Laenderbank is expected to report record profits and high growth when its final results for 1986 are published. Mr Gerhard Wagner says that partial operating profits are expected to be more than 20 per cent higher than in 1985 with profit in the securities business up by more than 10 per cent. The bank will also raise its dividend from 10 per cent to 12 per cent.

In various ways the banks are seeking to strengthen their international profile and activities. Creditanstalt will open representative offices in Moscow, Hong Kong and Tokyo this year. Gironzentrale acquired a majority share in Bankinvest AG of Zurich last year and it will upgrade its New York representative office into a full branch in the spring.

An important move this year is likely to be the lifting of restrictions on the rights of foreign shareholders in the two partly state-owned banks. Under the present law, non-Austrian shareholders in Creditanstalt and Laenderbank do not have full rights and are not entitled to a dividend. A foreign shareholder can get round the law by selling the coupon on his shares back to the bank but the law acts as a disincentive.

In the next few years the Government is also expected to gradually reduce the state's share in both banks from its present 60 per cent to 51 per cent and a change in the law on foreign investors will make it easier for the banks to attract more foreign funds.

Patrick Blum

Austria is covered by a network of Raiffeisen farmers' co-operative banks such as this one at Lofer.

The Vienna Bourse

A high level of activity

THE VIENNA Bourse settled down to more modest gains in 1986 following the previous year's spectacular rise. The outlook for this year is more uncertain although a high level of activity is expected with several new listings.

Whereas in 1985 Vienna's semi-dormant bourse awoke to outperform every other major exchange in the world with its official index rising by 126 per cent, 1986 saw prices fall with the index going from 275.35 at the end of 1985 to 261.69 on December 30.

There was, however, a further growth of activity with a record number of new issues and capital increases, both of which helped to maintain a high degree of investor interest.

More companies were listed or raised capital than in previous years. Ten new companies, including three regional banks, issued shares compared with only two companies in each of the preceding years.

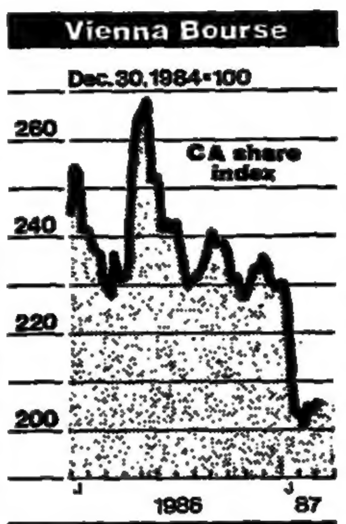
Prices fluctuated most in the first half of the year with the index falling to 256.92, its lowest point, in early March and rising to 298.19, a historical high, in the second half of April. Prices then followed a downward curve to firm up again towards the end of the year.

Share analysts attribute the improvement to renewed international interest in Austrian securities following a spurt of activity on the Vienna Bourse in the autumn with the introduction of several new issues.

There were additional factors. Traditionally there tends to be a bunching up of activity towards the end of the year to take better advantage of certain available tax incentives to encourage investment. Also, by the late autumn the performance of individual companies can be more easily assessed and despite a slight slowing down in the economy many companies were reporting higher earnings.

End of year improvements did not alter the general trend for a decline in prices, although most analysts believe that this was inevitable after the very strong increases of 1985. Dr Karl Pale, chairman of the Girozentrale Bank and a former president of the Vienna Bourse, says: "Although Austria's share market was unable to repeat its impressive performance of the previous year, it consolidated at a high level . . . the widely feared reaction to the rise in share prices in 1985 did not materialise."

Vienna Bourse



According to the official bourse branch index, set at 100 at the start of each year, the magnesite industries recorded the strongest growth (index up to 138.70), followed by the banks (index up to 107.92) and a very small rise in the index for the construction industries (102.08) and the breweries (101.43).

The paper industries were sharply down (75.52), also down were the insurance companies (85.21), the chemical industries (89.82) and machinery and metallurgical industries (90.14).

Long-awaited reforms introduced on the bourse in January 1986 encouraged activity. Trading hours were lengthened, the limits on the price movements for new shares were widened and shares are no longer quoted in terms of percentages of their nominal value but in unit prices. Government plans to reduce taxation on equities provided additional incentives for investors.

New capital raised by companies already listed on the bourse totalled Sch 3.8bn, more than double the amounts raised in 1985. The market capitalisation of companies on the bourse maintained strong growth rising from Sch 28.3bn ($2.2bn) at the end of 1984 to Sch 74.3bn ($5.8bn) in 1985 and to Sch 84.1bn ($6.6bn) at the end of last year.

The total value of shares traded on and off the bourse increased by more than 50 per cent rising from Sch 13.6bn (just over $1bn) in 1985 to Sch 20.5bn ($1.6bn) last year. On the bourse itself the amount rose from Sch 6.4bn to Sch 8bn.

This year, several companies and banks are planning to issue shares and participation certificates which are roughly equivalent to risk-bearing non-voting shares. Government privatisation moves have raised expectations about shares being offered in some of the more successful nationalised companies, and further tax reforms are expected to encourage activity, but the narrowness of the market and the slowdown of economic growth may handicap growth.

The total value of shares traded in January was sharply down compared with January 1986 and the amounts traded on the bourse in January and February were down 35 per cent from Sch 1.6bn in 1986 to just over Sch 1bn this year.

The bourse index has also fallen from 261.69 at the end of last December to 236.01 at the start of March, all of which suggests that developments may be much more modest in 1987.

Patrick Blum

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Tourism industry

A need to go up-market

A CREEPING crisis has overtaken the Austrian tourist industry. Long-term structural difficulties caused by the need to adapt to changing tastes in the tourists' home countries, first and foremost West Germany, have been accentuated by more temporary problems: unemployment in West Germany, American fears of terrorism in Europe and the continued rise of the Austrian exchange rate, above all against the American dollar.

The latter two problems caused a severe collapse of the number of American tourists last year, but the signs are that the effects may be ebbing off.

The longer term's difficulties arise largely from the revolution in air travel. Cut-price intercontinental flying has brought overseas destinations within reach of tourists who, not long ago, could only dream of Kenya, China or the Caribbean. Moreover, many of those destinations do not suffer the capricous weather of temperate zone countries with their winter and summer seasons.

Austria shares these difficulties with others, but in her case they are, perhaps, graver than elsewhere. Revenues from foreign tourists are equivalent to some 8 per cent of gross domestic product and play a decisive part in balancing the current external current account.

No less important is the role of the tourist industry in maintaining the viability of certain mountainous areas which would become even poorer or even depopulated without their income from summer and winter tourists.

Besides that icome, there are spin off effects: accommodation needs to be built and repaired, providing local employment. Tourists' cars need to be serviced and a whole series of services can make ends meet because the tourists bring extra business in the season.

The Austrian state recognises this by providing considerable subsidies to the tourist trade, not least in the form of unemployment benefit to those who work in it during the summer and winter and "rest" between the seasons.

Austria leads the world in the number of foreign tourists' overnight stays per head of the resident population. In 1983 the ratio was 11.6. The Swiss, in second place, managed 5.6 nights per head of the resident population, followed by Spain with 4.3 and Greece with four. Britain reached 2.6.

The implication is that Austria, a small country, must be close to saturation point—that any growth to come will have to be not so much from the number of visitors and the time they spend in Austria, but from the amounts they spend.

Doing so will mean finding a new clientele. As Dr Egon Smeral of the Vienna Economic Research institute puts it, much of Austrian tourist accommodation was designed for the West German industrial worker and he, nowadays, is parsimonious because he may lose his job or even be unemployed.

Dr Smeral's comment is born out by statistics showing that of 1.3m beds on offer no fewer than 386,000 are in private houses. That is a proportion higher than in any other alpine country.

Tourist Trade

	1986	1985	1980
Overnight stays (m)			
Austrians	28.2	27.5	28.5
Other visitors	85.4	85.1	90.2
TOTAL	113.6	112.6	118.7
Expenditure* (schillings bn)			
Visitors to Austria	105.0	102.5	83.4
Austrians abroad	60.0	55.0	40.4
Balance	45.0	47.5	42.9

* Preliminary, 1986 figures.
Source: Chamber of Commerce and Industry

Tyrolean tourist attraction: musicians of the Natters village band.

Last year, when total demand went up by 0.9 per cent to 113.6m overnight stays, demand for private accommodation shrank by 1.2 per cent to 21.1m.

At the other end of the scale, demand for accommodation in five and four star hotels rose by 2.5 per cent to 18.7m overnight stays. Austria always has had an appeal to elite groups, typefied by the international rush to attend the Salzburg Festival of Music and Drama or the Vienna Opera Ball which may only last for a night, but where a glass of native sparkling wine with orange juice will set you back Sch 170 (almost £9).

But these are traditional attractions. Something will have to be done for the not quite so rich or musical in order to raise the return to Austria per tourist. Vienna, which has successfully exploited its Johan Strauss and *Apfelstrudel* image in the growing and lucrative area of city tourism, is thinking of happenings of one kind or another to titillate the foreigner and may even be able to do something, eventually, about closing hours. At present the visitor is apt to find shops closed from Saturday lunch until Monday morning—and the best-known museums shut on Monday.

Yet even the weekend visitor to the capital will find much to reward him, besides the pastries. In recent years Vienna has been greatly spruced up. Many 17th, 18th and 19th century facades have been cleaned and repainted in their original, yellows, whites and pinks. A stroll through the inner city within the circle formed by the Ringstrasse, built along the former city fortifications, will reveal much of the historic splendour of one of the great cities of European history as no car or bus-tour can.

But at the opposite end of the scale something is happening under the name of "alternative tourism," which really means very much the same thing as an old fashioned holiday with simple accommodation, plain cooking and a minimum of hoopla.

Cheap but good inns can be found in the regions close to the Czechoslovak and Hungarian borders, doing increasing business not only with Austrian visitors. Some venues have been discovered by tour operators abroad, especially for cross country skiing.

It may only be marginal to the industry as a whole, but for these often-disadvantaged regions—as well as for holidaymakers, happy to be far from the madding crowd—it is a hopeful sign

W. L. Luetkens

Austrian ski manufacturers pursue an aggressive marketing strategy

Competition hots up

AUSTRIAN SKIING fans had little to cheer as they watched their country's national team repeatedly fail to win gold and silver medals in this year's World Championship. The newspapers spoke of a "national disaster" and screamed for heads to roll. A committee was set up to look into the matter. There was gloom all round.

But on the sidelines the general feeling of despondency was giving way to broad smiles as Austrian ski manufacturers saw their wares prominently and repeatedly displayed by eager winners of all nationalities. Austrian skis were once more collecting medals in all events and classes, and success in the races means big business.

When the U.S. Champion, Bill Johnson won the Men's Downhill at the Sarajevo Winter Olympics in 1984, millions of Americans saw his picture—with Atomic skis well displayed—on the front pages of newspapers and magazines. This was a degree of exposure in the world's largest market that not even Atomic, Austria's leading ski manufacturer, could hope to reach by traditional advertising. The company says that it won it the leading position among Austrian exporters to the US with about 33 per cent of the US market for Austrian skis, representing about one quarter of the company's total exports.

Last year, Austrian ski manufacturers most of which are family businesses, sold about 4m pairs of alpine and cross-country skis of an estimated world market of around 8.8m pairs. Six major companies including Atomic, Blizzard, Fischer, Head (all Head skis are produced in Voralberg), Kaestle and Kneissl account for about 90 per cent of Austrian sales and exports. There are also numerous smaller companies, as well as manufacturers of accessories from boots to bindings and clothing.

In recent years these companies have seen their sales consistenly progress although new growth is proving more difficult as some markets reach saturation and competition sharpens.

During the 1985-86 season, Atomic sold 745,000 pairs of skis, including 80,000 for cross-country worth Sch 729m ($57m). In the current season, sales are expected to reach about Sch 760m. Over 80 per cent of production is exported.

Fischer, which has a greater volume of cross-country sales and has also diversified into tennis equipment, sold 860,000 pairs of skis of which almost half—410,000—were cross country in 1985-1986. Total sales, including tennis rackets, were worth Sch 765m and 85 per cent of production was exported. In the current season sales are expected to reach about Sch 800m.

According to a survey by Kaestle, a medium-size manufacturer, the Austrian market in 1986-87 was estimated at about 560,000 pairs of alpine and cross-country skis. This places Austria in fifth position after the US (top with 1,720,000), Japan (a fast-growing market with 1,165,000). West Germany (1,150,000), France (780,000) and Canada (650,000). Switzerland and Italy account for over 480,000 each and the Scandinavian countries—Sweden, Finland and Norway—for 1,120,000 pairs of mainly cross-country skis.

The Austrians have pursued an aggressive marketing strategy often setting up their own distribution companies in key markets. A high export ratio is a characteristic of the Austrian industry regardless of the size of the company. Kaestle which sold 325,000 pairs of alpine and cross-country skis worth Sch365m in 1985-1986 exported 81 per cent of its output. Hagan with sales of Sch160m in 1985 exported almost 80 per cent of production.

But there are clouds on the horizon. Some painful restructuring appears likely.

"Competition is becoming fiercer and in the future there could be several sudden deaths," says Dr Heinz Stingl from the Federal Chamber of Business. Markets are fast becoming saturated. The two main growth markets are the US and Japan and the performance of Austrian companies there will have an important impact on their future development, he says.

He identifies future potential growth in the Soviet Union and Eastern Europe and, in the longer-term, in China.

In the meantime, competition is hotting up from France, where Rossignol is the world's largest producer of alpine skis, Yugoslavia with Elan, West Germany and Italy. There are fears also about Japan whose own ski industry is deveoloping fast. Currently Japan imports about 600,000 alpine skis a year of which about half come from Austria, but the picture could change rapidly.

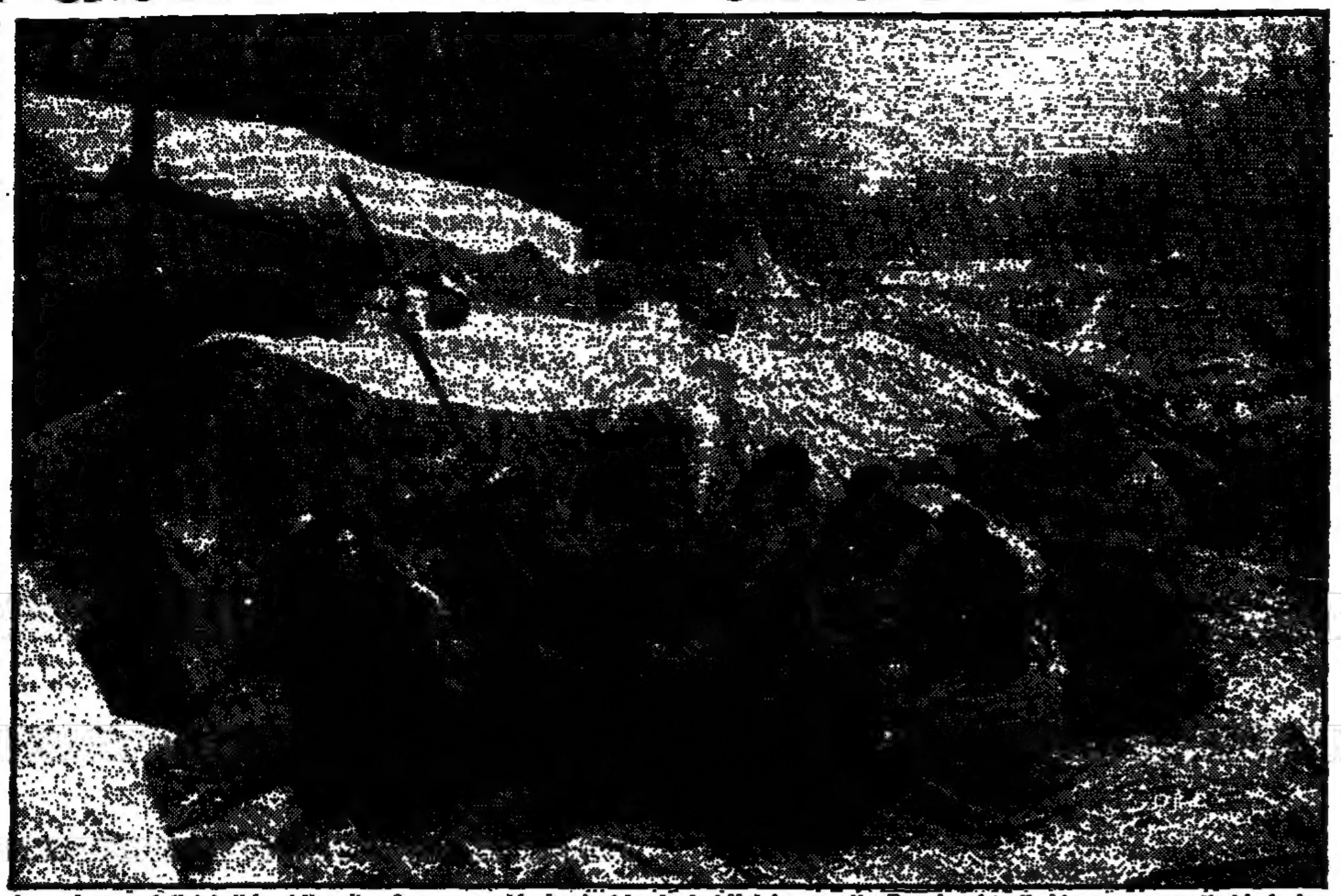
"There is a long-term threat from the Japanese. at the moment they compete only on their domestic market, but in the future we have seen what they can do in other industries," says Dr Stingl.

Patrick Blum

Ski boot manufacturers face a saturated market

Pressure on industry

Public sector under stress



An environmentalists' sit-in at the site of a proposed hydroelectric plant at Hainburg on the Danube signalled two years ago that industry faced growing difficulties from that quarter. Construction has been postponed and may be abandoned

A KEY question for the future of Austria is whether private employers can make good the loss of jobs in a group of state-owned businesses, most of which have declined into deep deficit.

The state holding company, OIAG, had 102,000 persons on the books in mid 1985, Now it is down to 93,000, and Dr Hugo Michael Sekyra, director-general of the group, says that will be down to 87,000 by the end of this year.

By and large, private industry—which in Austria means a host of small and medium-sized businesses, has been able to maintain staffing levels, though at times for paternalist rather than strictly business-like reasons.

But will it be able to absorb newcomers?

Prof Herbert Krejci, of the Industrialists' federation, says the answer will depend upon the conditions that they and, by implication, their unions make. State-owned industry has a way of being particularly generous with fringe benefits which, in *Austria*, can *come to as much* again as the wage itself.

Working practices in private industry also tend to be more flexible than in the state-owned *sector*, partly because in a small business it has proved possible to retain a direct human contact between man and master.

The fundamental problem of state-owned industry, which it shares with some of private industry, is an excessive *dependence upon traditional* products, such as the commodity steels of *Voest-Alpine*, the country's *largest* company. But on an overall view the private entrepreneurs have *proved* more successful at finding market niches and innovative products. Some private companies have very strong positions in world markets—the classic instance being Plasser und Theurer, with well over three-*quarters of the western world* market for equipment to lay and maintain railway track.

Private industry also has great strength as a supplier of *components. Together* with branch plants of foreign motor companies, it has allowed Austrian automotive exports to cover 80 per cent of the country's *imports of* cars.

Voest's problems became apparent for all to see when, in 1985, an attempt to make good a string of losses by playing the oil futures market went wrong badly. From then on it proved impossible to ignore the losses chalked up in other, smaller members of the OIEG group.

The prescription adopted was streamlining, an end to political back-seat driving, government guarantees of the group's liabilities, orders to be out of the red by 1990, and a cautious measure of privatisation.

Dr Dudolf Streicher, the minister in charge—a man who came up from the shopfloor himself and became respected as a tough manager by the *unions—says that privatisation* is not going to be practised for its own sake. The real purpose is to reduce the drain on an already strained federal budget. *As it is*, special legislation is on the way to put the OIAG group's finances in order. The total sum is Sch 42.3bn (£2.2bn), of which Sch *12.3bn has already* been financed since the disaster of 1985.

The balance includes Sch 15.2bn in new money for Voest, another Sch 6.1bn for its alloyed steel affiliate, Vew, and Sch 3.5bn for restructuring Chemie *Linz (fertilisers, plastics* and pharmaceuticals), and Elin (electrical engineering and electronics). As against that Dr Streicher hopes to raise Sch *3bn-4bn by privatisation.*

A small start has been made by selling off a company making traffic light systems. In the *autumn, OIAG hopes to float* about 10 per cent of OEMV, which runs Austria's only oil refinery and has been in profit. Dr Streicher hopes for a yield of Sch 800,000-1m. *Another 15 per* cent of the OEMV equity are to be floated later.

The other big item for privatisation is Siemens Austria, whose majority lies with the German Siemens concern. *OIAG holds 43 per cent of the* Austrian company and would like to reduce that to 25 per cent. But the narrowness of the Austrian capital market is *likely to delay the flotation.*

In the case of Chemie Linz it is planned *to turn the pharmaceuticals* division into a joint with the Austrian tobacco monopoly as a provider of capital and to bring the plastics divi*sion into a form of partnership* with OEMV, the refinery company. The fertiliser section, heavily in loss, needs new plant to compete with Norsk Hydro, and *is hoping for supplies of* natural gas below the current Austrian market price.

At Voest, where the crisis first became pubic knowledge, the strategy is to create a more technology-oriented concern with *steel as its main basis. Dr* Sekyra, the head of OIAG, sees a future for products such as car *exhausts, fuel injection systems,* shopfloor robotics and oil field equipment, even though the latter is under a shadow just now.

Dr Sekyra also attaches great importance to a new iron-making technology, Corex, which *Voest has worked on. It uses* natural gas and coal, which may be low grade, to smelt iron ore and produces gas for heating as a by-product. Dr Seqyra reckons that the Austrians are five years ahead with this technology and that, all going well, it might prove something of a repeat performance of Voest's post-war success with the LD oxygen-steel process which swept the world. But he adds that "we are speaking of a time horizon of 10 years."

The industrial holdings of Austria's two state-owned commercial banks, and more particularly of Creditanstalt-Bankverein (CA), represent a specialised form of state ownership in industry. CA's industrial group has been slimmed down somewhat and, on aggregate, is showing a small profit. One of its biggest loss-makers, the cycle and moped division of Puch, part of Steyr-Daimler-Puch, has been sold off for a song to Piaggio, a member of the *Fiat group, which wanted Puch* technology for a moped engine with catalytic converter.

In spite of that sale, Steyr-Daimler-Puch remains the chief problem in CA's industrial empire. Lorry capacity of 6,000 units a year is too small to be economic and needs a more potent partner. Steyr also makes armoured vehicles and guns, and in the past occasionally ran into political difficulties with proposed exports. But the political atmosphere in Vienna may have changed somewhat.

At OIAG, Dr Sekyra defines his strategy as turning a conglomerate into a concern proper—which must mean clearly defined chains of command and finding synergies (or scope for constructive co-operation) within the group, and disposing of units that do not properly fit in.

His and Dr Streicher's task is complicated by the expected slowdown of the Austrian economy, which could revive political pressures *to preserve jobs* at whatever cost. For the moment at least, both men say they want to protect management from such pressures—but both must *also be aware of* deep-seated Austrian traditions of state intervention.

W. L. Luetkens

Pouring molten steel at the Donawitz mills of the troubled state-owned Voest concern

OIAG in 1986

Affiliate	Turnover (Sch bn)	Labour force	Provisional Result (Sch bn)
Voest-Alpine steel engineering	42.0	34,700	6.7 loss
VEW special steels	8.7	9,500	1.7 loss
OEMV oil	48.0	6,800	1.5 profit
Chemie Linz	13.0	6,200	0.8 loss
Simmering-Graz-Pauker, engineering	6.8	3,500	small profit
Elin, electrical engineering and electronics	6.0	6,600	0.2 loss
Austria Metall, non-ferrous metals	6.7	3,600	0.2 profit

A formidable task for the man in the middle

Dr Hugo Michael Sekyra, Director-General of the troubled state-owned OIAG group

Looking for state industry profits

DR HUGO MICHAEL SEKYRA has one of the most difficult jobs in Austrian industry, as head of Oesterreichische Industrieholding (OIAG), the holding company for nationalised industries, he is under orders to turn the loss-making concern back into profit by the early 1990s.

It is a formidable and daunting task, but one which he has taken up with energy.

"This is a start-up business. We've lost 15 years so there is a lot to do," he says almost enthusiastically, as if relishing the prospect.

The OIAG group is a network of companies currently employing 93,000 workers, representing about one-fifth of the country's industrial labour force, and responsible for about 20 per cent of the country's exports. It includes Voest-Alpine, the troubled steel and engineering group which is Austria's largest individual company, as well as several other major enterprises producing a wide range of products.

Dr Sekyra, a young looking 45 year old, has been putting in 15 hours a day, from 7 am to 10 pm and sometimes later, since his appointment as OIAG director-general last August. His dedication appears only to stop at weekends which he faithfully spends with his family at Bad Aussee in Styria, well away from Vienna.

In uncharacteristic understatement he describes his job as "very challenging and interesting." He is forthright, confident and businesslike in argument, qualities which have caused him occasional problems in the past months. His working life has been spent in industry, both private and state-owned. His last job was that of chief executive at Papierfabrik Laakirchen, a private paper manufacturer.

His appointment fitted in with the government's new-found determination to have experienced and efficiency conscious managers rather than politicians to run the state industries, but the job remains a highly political one.

Rationalisations to be undertaken in the course of the next few years will mean substantial job losses, in some cases in regions that are already plagued by higher than average unemployment, opposition to lay-offs and other changes as well as political pressures are likely to grow.

Austria's nationalised industries had good rates of growth until 1973-74 and the first oil shock but then got into trouble because they failed to change, Sekyra argues.

"Other countries adapted and changed their attitudes (but), the Austrian state industries continued to work with the old system because the politicians and the trade unions don't like change," he says.

He believes that conditions now and government support will allow him to do what is necessary to trim down OIAG and make it profitable. But he also says, maybe a shade apprehensively, that "politicians are natural enemies of structural change."

Patrick Blum